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Canada - Railways and Shipping, Standing
Committee, 1934

SESSION 1934

HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

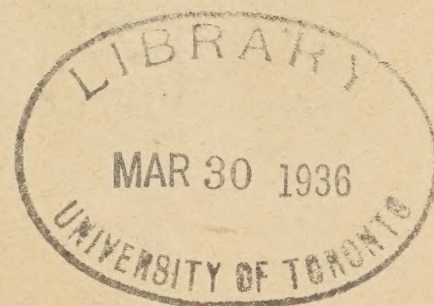
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

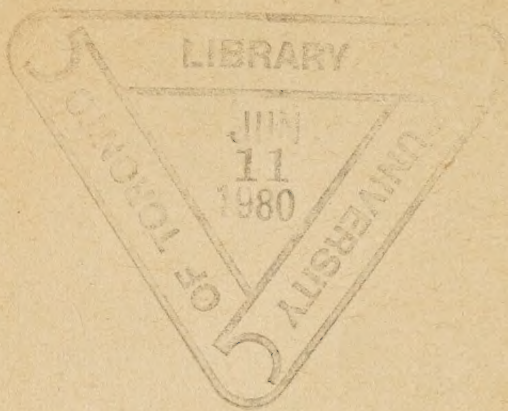
FRIDAY, MAY 25, 1934
THURSDAY, MAY 31, 1934
WEDNESDAY, JUNE 6, 1934



WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
Mr. J. E. Labelle, Trustee, Canadian National Railways.
Mr. S. J. Hungerford, President, Canadian National Railways.
Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.
Mr. S. W. Fairweather, Canadian National Railways.
Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1934



MEMBERS OF THE COMMITTEE

Hon. J. D. CHAPLIN, *Chairman*

and Messrs:

Beaubien,
Beaubier,
Bell (*St. Antoine*),
Bothwell,
Cantley,
Chaplin,
Duff,
Euler,
Fiset (*Sir Eugene*),
Fraser (*Cariboo*),
Geary,

Gray,
Gobeil,
Hanbury,
Heaps,
Kennedy (*Peace River*),
McGibbon,
MacMillan (*Saskatoon*),
Manion,
Power,
Price,
Stewart (*Lethbridge*).

J. P. DOYLE,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, May 4, 1934.

Resolved,—That Standing Order 63 of the House of Commons, relative to the appointment of Select Standing Committees of the House be amended by adding to the select standing committees of the House for the present Session a Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present Session, for consideration and report to the House, provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said committee consist of Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Bothwell, Cantley, Chaplin, Duff, Euler, Fiset (*Sir Eugene*), Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, Heaps, Kennedy (*Peace River*), McGibbon MacMillan (*Saskatoon*), Manion, Power, Price and Stewart (*Lethbridge*).

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House,

HOUSE OF COMMONS,

TUESDAY, February 6, 1934.

Resolved,—That the Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, April 27, 1934.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 71, An Act respecting the Canadian National Railways and to authorize the provision of money to meet expenditures made and indebtedness incurred during the calendar year 1934, and to provide for the refunding of certain maturing financial obligations.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, June 1, 1934.

Ordered,—That the Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act, presented to the House on the 27th April, be referred to the Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, and that the Order referring the same to the Committee of Supply be discharged.

Attest.

THOS. M. FRASER,
Asst. Clerk of the House.

Ordered,—That the said Committee be given leave to print 500 copies in the English language and 200 copies in the French language of its day to day proceedings and evidence which may be taken, for the use of the Committee and for Members of the House of Commons and the Senate; and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, June 7, 1934.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

FIRST REPORT

June 4, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

FIRST REPORT

Your Committee, in accordance with Order of Reference dated April 27, 1934, has considered Bill No. 71, an Act respecting the Canadian National Railways, and has agreed to report the said Bill with an amendment.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

SECOND REPORT

June 6, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

SECOND REPORT

Your Committee, in accordance with Order of Reference dated June 1, 1934, has considered the Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act, being Votes Nos. 282, 283, 284 and 285, and has agreed to report said Estimates without amendment.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

THIRD REPORT

June 6, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

THIRD REPORT

Your Committee recommends that it be granted leave to print 500 copies in the English language and 200 copies in the French language of its day to day proceedings and evidence which may be taken, for the use of the Committee and for members of the House of Commons and the Senate; and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

FOURTH REPORT

June 7, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

FOURTH REPORT

Your Committee recommends that it be granted leave to sit while the House is sitting.

All of which is respectfully submitted.

J. D. CHAPLIN,
Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, May 25th, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 10.45 o'clock, a.m., in accordance with notice issued.

The following members were present: Messieurs: Beaubier, Cantley, Chaplin, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Gobeil, Heaps, MacMillan (*Saskatoon*), Manion, Price and Stewart (*Lethbridge*).—12.

Nominations for Chairman were asked for. Mr. Heaps moved, seconded by Mr. Beaubier, that Mr. Chaplin be Chairman. Motion agreed to.

Sir Eugene Fiset moved, seconded by Mr. Gobeil, that the three Canadian National Railway Trustees be called for Wednesday and Thursday, May 30th and 31st. Motion carried.

Moved by Mr. Price, seconded by Mr. Heaps, that Mr. Hungerford and Mr. Fairweather be called for Wednesday and Thursday, May 30th and 31st. Motion carried.

Sir Eugene Fiset requested that copies of Orders in Council appointing the three Canadian National Railway Trustees be produced.

Mr. Price moved, seconded by Mr. Heaps, that twenty-five copies of the Annual Report of the Canadian National Railways and the Canadian Government Merchant Marine be supplied for the use of the Committee. Motion carried.

Sir Eugene Fiset requested that information be supplied regarding the method of procedure followed in closing a railway station.

The Committee adjourned until Wednesday, May 30th, at 11 o'clock, a.m.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

Room 268,

May 31st, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, in accordance with notice issued, met this day at 11 o'clock, Mr. Chaplin, the Chairman, presiding.

The following members were present: Messieurs: Beaubien, Bell (*St. Antoine*), Bothwell, Cantley, Chaplin, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Manion, Price and Stewart (*Lethbridge*).—15.

In attendance were: Hon. C. P. Fullerton, K.C., Mr. F. K. Morrow, Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister of Railways and Canals.

The Chairman announced that copies of Orders in Council appointing the Trustees of the Canadian National Railways, and copies of the Annual Reports of the Canadian National Railways and the Canadian Government Merchant Marine had been distributed to members of the Committee as requested at the last meeting.

The Committee then proceeded to consider Bill No. 71, an Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1934, and to provide for the refunding of certain maturing financial obligations.

Clause I—Carried.

Clause II—Carried.

Clause III—Carried.

Clause IV—Mr. Cantley moved, seconded by Mr. Price, that Clause IV be amended by inserting after the word "deficits" in the seventh line of Section 4, the following:—

Including such supplementary contributions to The Intercolonial and Prince Edward Island Railways Employees' Provident Fund as may be necessary to provide for payment in full of monthly allowances under the provisions of The Intercolonial and Prince Edward Island Railways Employees' Provident Fund Act, notwithstanding the limitation contained in Section 4 of the said Act, and

Clause IV as amended—Carried.

Clause V —Carried.

Clause VI —Carried.

Clause VII —Carried.

Clause VIII —Carried.

Clause IX —Carried.

Clause X —Carried.

Clause XI —Carried.

Clause XII —Carried.

Schedules —Carried.

Title —Carried.

It was agreed to report the Bill as amended.

Discussion took place regarding co-operation between the roads as to pooling, etc. It was pointed out that a statement to Parliament must be made under the Act of last year. See Clause 14. The Officers were requested to make a statement *re* pooling. Mr. Fairweather briefly explained the pooling arrangements. He also gave the number of men displaced by pooling and the number of men taken back on account of improved business.

Men employed by Canadian National Railways in 1929, 111,000; 1933, 70,000; 1934, 76,000.

Interest charges on the funded debt of the Canadian National Railways were given as follows: 1929, \$45,503; 1930, \$51,306; 1931, \$55,587; 1932, \$56,965; 1933, \$56,065, the average interest rate being about $4\frac{1}{2}$ per cent.

Mr. Fairweather stated the policy of the Canadian National Railways was to hold their traffic as long as possible before turning it over to any other railroad, and whenever possible turned it over to a Canadian road. It was stated that the Canadian Pacific turned over their Chicago traffic to the Michigan Central Railway when it could have been carried by the Canadian National.

In reply to a question by Sir Eugene Fiset, Mr. Hungerford stated that before making application to the Board of Railway Commissioners for permission to abandon a railway line or close a railway station, notice of such application was always sent to the municipality affected.

It was suggested that at the next meeting the Chairman of the Board of Trustees be requested to make a statement regarding the writing down of the capital stock as suggested by the auditors.

The Committee adjourned until Wednesday, June 6th, at 11 o'clock, a.m.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

Room 231,

June 6, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, in accordance with notice issued, met this day at 11 o'clock, a.m., Mr. Chaplin, the Chairman, presiding. The following members were present:—

Messieurs Beaubier, Cantley, Chaplin, Euler, Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, McGibbon, Manion, Price, and Stewart (*Lethbridge*)—13.

In attendance were: Hon. C. P. Fullerton, K.C., Mr. F. K. Morrow, Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

The estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act, being Votes No. 282, 283, 284, and 285, submitted to the Committee by Order of Reference, dated June 1, 1934, were considered and adopted.

The Chairman announced that all the formal matters referred to the Committee had been considered, and requested that members desiring information should now place their requests before the Committee. He then called on the Hon. C. P. Fullerton, to make a statement.

Mr. Gray called attention to the fact that the proceedings of the Committee were not being reported or printed, and after discussion he moved, seconded by Mr. McGibbon, "that the Committee recommend that it be granted leave to have its day to day proceedings printed; that Standing Order 64 be suspended in relation thereto, and that 500 copies in English and 200 copies in French be printed for the use of members of the Committee and the House of Commons.—Motion carried.

Mr. Fullerton then proceeded with his statement.

Mr. Fraser (*Cariboo*), asked that the Canadian National Railways officials at the next meeting present a statement showing a comparison of the salaries and expenses of the executive officers in 1931 and the present year.

The Committee adjourned until Thursday, June 7, 1934, at 11 o'clock, a.m.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 231,

WEDNESDAY, June 6, 1934.

The select standing committee on Railways and Shipping met at 11 o'clock, Mr. Chaplin, the chairman, presiding.

The CHAIRMAN: Order, gentlemen. Mr. Fullerton, the chairman of the Canadian National Railways has a statement which he desires to present to the members of this committee. Proceed Mr. Fullerton.

STATEMENT OF HON. C. P. FULLERTON, CHAIRMAN CANADIAN NATIONAL RAILWAYS

To the Chairman and Members of the Select Standing Committee on Railways and Shipping:

At the meeting of the Committee on Thursday last, I was asked for an expression of opinion as to the future prospects of the Canadian National Railways and for my views on co-operation with the Canadian Pacific Railway.

Let me say at the outset I am not one of those who believe that the Canadian National Railways is a hopeless proposition. I am impressed with the potential earning power of the property. The net earning power is at the present time obscured by the depression and by the unwieldy capital structure. It is likewise true there are unnecessary duplicate lines, both within the Canadian National System and as between that System and the Canadian Pacific; also there are portions of the System which are now unprofitable and which can never be otherwise. Broadly speaking, however, the System is well located to serve the industrial east; its lines in Northern Quebec and Ontario have shown a surprising degree of development in lumbering, pulp and paper, mining, and through the clay belt in agricultural development, and its lines in the prairie provinces are fortunately located.

To be a defeatist with regard to the potential earning power of such a property is to be a defeatist with regard to the future of Canada. What is called for at the present time is a policy of rigid economy and of careful administration, and this the Board of Trustees and the Management intend to give to the best of their ability.

The fundamental factor in the problem of Canadian National Railways is one of gross revenues. In 1933 our gross revenue was 148 million dollars, the lowest in the history of the System since the completion of its constituent parts. In 1928 the revenues of the System were 312 million dollars, so that 1933 is below the level of that peak year by 164 millions, well over 50 per cent. The revenues for 1933 were more than 107 million dollars less than the average of the previous ten years, a decrease of 42 per cent. This terrific shrinkage of \$2,000,000 per week in the business handled by the Railway is the major cause of our present difficulties, and until we obtain a substantial increase in business the problem will remain a problem.

The low level of business transacted, of course, is not peculiar to the Canadian National Railways. The Canadian Pacific is experiencing similar difficulties. In 1933 our revenues decreased 7.81 per cent compared with the

previous year. The C.P.R. revenue decrease was 7·80 per cent. Compared with the peak year of 1928 our revenues decreased 15·44 per cent. On the Canadian Pacific the decrease was 52·78 per cent. Taking Class 1 Roads of the United States, 1933 in comparison with 1928, their revenues decreased 49·89 per cent.

The measures which are open to us to secure a substantial increase in our gross revenues are limited. We ourselves can do little to expand the trade and commerce of the country, either domestic or external. Our efforts may affect the distribution between the various transportation agencies of the total volume of business to be handled, but we cannot by taking thought add to the sum total thereof. I do not think I need to labour this point, it is obvious to us all. It is gratifying to see that the present trend is definitely upwards. Our revenues for the first five months of the current year show an increase of \$11,630,000 over last year, an increase of about 21 per cent. You ask me what are the possibilities of Canadian National operations during the next four or five years. This I cannot say. I prefer not to make any forecast regarding the future. It will depend to a very great extent indeed upon general business conditions, over which we have no control. It is not unreasonable, however, to expect a gradual return to a more normal level of business. If we could say that the normal level can be measured by the average experience of the ten years 1923 to 1932, then the revenues of the National Railways will be increased by a hundred million dollars over the 1933 level, and if this is accomplished the National Railways will be within measurable distance of meeting its fixed charges on the Funded Debt of the System held by the public.

It is our definite policy to seek out every possible means to economy consistent with safe operation and reasonable service to the public. With a return of normal conditions we shall continue this policy. Even if there is a return to prosperity we shall still continue this policy. We are fixed in our determination that at all times and under all conditions we must be economical in our expenditures. A saving of every one per cent in Operating Expenses means a saving of one and a half million of dollars, even on the 1933 level of expenditures.

Every departmental head has undertaken a close survey of his department to see what can be done to secure increased efficiency and greater economy.

In every direction our officials are at work to see that every item of unnecessary expense is discontinued.

Unfortunately economies cannot be made without displacing labour. Out of every dollar spent in operating the Railway, 63 cents is a direct payroll expense. Whilst, therefore, to secure economies labour is necessarily displaced, our greatest desire is to see the men returning to work in the essential services. In this respect it is gratifying to note that the first three months of the year, compared with the previous year, the number of employees at work has increased by 6,463.

Apart from revenues and expenses the other major item in our problem is the annual interest on the Funded Debt in the hands of the public. In 1923 the amount was 35½ millions; in 1928, 42 millions; in 1932 the peak was reached at \$56,965,000. This might be classed as an uncontrollable item. There is not very much the Trustees can do about it. It was here when we entered office.

Under the policy which has been in effect since 1932 there has been a gradual reduction in the total interest charges payable to the public, and opportunities will arise of refunding existing issues at a lower rate of interest. For example, there are two issues of 7 per cent Dominion Guaranteed Sinking Fund Debenture Bonds callable in 1935, which if refunded on a 4½ per cent basis would save \$900,000 per annum. In this connection I may mention it is costing us over 2 millions dollars a year for exchange on amounts required to pay interest in United States and Sterling funds. This will be saved if and when Canadian currency can be stabilized on a parity with such funds.

Now as to the progress made in co-operation between the two railways, I mentioned the other day that there were under study by the Joint Co-operative Committee of the two railways a number of proposals for line abandonments. Some of these proposals involve the elimination of apparently unnecessary rail mileage by the abandonment of one company's line and the joint use of the other's, where the lines of both companies are generally parallel and perform similar functions. Studies are in various stages upon thirty-six projects involving proposals for the abandonment of approximately 2,100 miles.

Apart altogether from the question of co-operative action between the two railways in regard to the abandonment of competitive lines, a committee of the Canadian National Railways has actively in hand the study of proposals for the abandonment of approximately 1,150 miles of light traffic non-competitive Canadian National lines in various sections of the country.

As I pointed out to you the other day, a program for the abandonment of lines is surrounded by all kinds of complications and difficulties. If it were possible merely to make a survey of traffic returns on certain lines of railway and ruthlessly cut off such lines as were unprofitable, then undoubtedly large savings could be made. This, of course, cannot be done. The interest of those who have settled along the lines and are solely dependent on them for transportation has to be considered. Before any line can be abandoned permission must be obtained from the Board of Railway Commissioners.

Co-operative measures which have been put into effect up to date are yielding \$1,260,000 yearly joint economy. They comprise passenger train pooling Montreal-Quebec, Montreal-Toronto and Toronto-Ottawa, joint car cleaning staffs at Quebec and St. John, a joint station at Gladstone, Manitoba, provision for joint switching at Portage la Prairie, an arrangement to haul each for the other, grain cars between Calgary, Edmonton and Kamloops to save distance, an arrangement to handle Canadian National traffic in Canadian Pacific trains between Fredericton and Vanceboro and an interchange of freight traffic at Sherbrooke instead of Lennoxville.

Many other co-operative projects are being studied, including extension of the pooling of competitive train services, joint terminal operations, joint stations, joint up-town and off-line passenger agencies and the unification of the telegraph and express facilities.

I am also asked for my comments on the recommendations made by Messrs. Geo. A. Touche & Company, Government Auditors, for adjustment of the capital structure of the Canadian National Railways. Since taking office I have given this matter careful consideration. The proposals are not intended as a cure for all the ills of the National System, but represent only a correction in the relations between the Railway and the Government, and make no changes whatever as between the Railway and its debt to the public.

I believe there is a great deal of misunderstanding in this matter. On the one hand the railway is deemed to be a business enterprise subject to comparison with its competitor, expected to produce a return on the capital invested and condemned in certain quarters because it does not fully do so. On the other hand, it is expected to function as an agency of government opening up for development in a pioneer way sections of the country without expectation of a direct return on the capital, but rather looking for additions to the developed natural resources and capital wealth of the nation. It is also expected to shoulder the debts and interest charge of its predecessor corporations, all of which were hopelessly bankrupt. I do not see how you can have it both ways. There is need for clarity of thought in the matter. The facts must be examined.

My position in the matter is this, and you will understand that I am only giving you my personal views. There can be no shadow of doubt that the capital

structure is top heavy. It contains interest bearing debts incurred to acquire assets now obsolete or which have ceased to exist. Also debts incurred to pay past deficits in operation, also capital stocks definitely determined by competent tribunals to be worthless.

The question of writing down the capital structure of the Canadian National Railways is not new. The matter was investigated under the Board of Audit Act (1925). Certain recommendations were made in a joint report submitted by Edwards Morgan & Company and Peat Marwick Mitchell & Company, and the recommendations then made went further relatively than the recommendations now under review.

The report of the recent Royal Commission on page 30 states "this Commission is of the opinion that it must frankly recognize that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost and its capital liabilities should be heavily written down," and asked that the question have early attention by the board of Trustees.

I judge by certain criticisms that it is not understood that no proposal has been made to write out of the railway accounts any loans furnished for *capital expenditures*. The amounts to be written out have to do with funds furnished to cover operating deficits and bookkeeping entries for interest. In respect of funds furnished by the government for capital expenditures, the proposal is that such funds be represented by shares rather than loans in order that there may be a proper relationship between the two classes of capital. Such a change in class of security does not reduce the equity of the government in any way.

The proposals do not require changes in Public Accounts. The amounts which might affect Net Debt which it is proposed to write out of the railway accounts have already been written into net debt in Public Accounts.

I think members of the Committee will readily agree that loans for deficits are not capitalizable items. They add nothing to the investment, and are incapable of earning any return. Interest thereon constitutes an unfair charge against current operations. The principle has been adopted by the Government as from January 1st, 1932. The Canadian National-Canadian Pacific Act, 1933, Section 12, says "Income deficits shall not be funded." The principle should now be applied retroactively.

As regards worthless stocks, is it not inconsistent to take a position with the Grand Trunk shareholders that their stock was worthless and at the same time insist that such stock be continued at face value in the account of the Company?

It appears to me that it could be argued with much force that the writing down should even go further than has been recommended. However the matter in the final analysis is one for the Parliament of Canada to determine.

Referring further to the criticism which I have read against the recommendations of the auditors: it has been said that what is proposed would be a distinctly dishonest form of bookkeeping and that those supporting the recommendations are parties to a calculated deception of the Canadian taxpayer. I regret that statements of this sort should be used in a public discussion of the matter. It is also said that it is simply a matter of bookkeeping and will effect no useful purpose. I disagree with this view. There are many reasons, one of which is the disheartening effect upon the management and the employees who must face year after year an insurmountable burden of debt. The effect of this should not be underestimated. The enterprise viewed as a business concern is also in my opinion prejudicially affected by this condition. I believe it would stimulate the organization if they were given an objective which it would be within their power to reach. If that objective should be to earn the interest on

the funded debt in the hands of the public that would constitute a task of real magnitude, but not beyond the possibility of accomplishment with a return of something like normal conditions. We must not forget that there can never be a repetition of expenditure on a scale such as existed during the last decade.

There is one other matter to which I must refer. Reference was made by a member of the Committee to public addresses delivered by the President of the Canadian Pacific Railway and I was asked to comment on these. It had not been my intention, for reasons which I shall later state, to refer to these speeches or to the efforts which are presently being carried on to promote the idea of amalgamation or, failing that, unified management of the two great railway systems, but since the matter has been raised in the Committee I feel it my duty to make a brief statement.

Let me say in the first place that the Trustees have purposely refrained from entering into a public controversy on these questions. It has, however, been considered desirable that the employees of the Canadian National Railways should know the situation and how the appointment of the Trustees affected them. In view of articles and statements in the press and elsewhere, a feeling of unrest was developing in the organization, and in a recent number of the Canadian National Railways Magazine, and in addresses to meetings in Montreal, Toronto, Winnipeg and Moncton, confined to railway employees, the matters of amalgamation and unified control were touched on. The results, it is believed, have been a strengthening of the morale of the employees. There is, however, a different attitude to be taken towards public discussions of these questions on the part of the Trustees.

It will be readily recognized that there is a vast difference between the powers of the Trustees and those of the Directors of the Canadian Pacific Railway, and nowhere is this greater than in matters pertaining to the formation of public opinion. It is open to the latter body to exercise as broadly as they wish, and at whatever expense they care to incur, their rights as private citizens, and, as the controllers of private property, to place their views and aims before Parliament and the Country. The Trustees must carry on within a definitely circumscribed area, and quite properly so.

The events which led up to the appointment of a Board of Trustees will no doubt be fresh in the minds of members of the Committee. The report of the Duff Commission was carefully considered by Parliament and it must be assumed that the views of those who appeared before the Commission, and especially those affected by its recommendations, received earnest attention. In so far as those views were not recommended to nor adopted by Parliament, it is reasonable to think that they were definitely disapproved of, while in so far as they were enacted into the statutes of the country, they must be accepted as indicating exactly and precisely the wish of Parliament. In the Duff Commission Report, and in the Act of Parliament which followed it, certain directions were given both railways. Among other things they were instructed, for the purposes of effecting economies and providing for more remunerative operation, to attempt forthwith to agree and continuously to endeavour to agree upon such co-operative measures, plans, and arrangements as are fair and reasonable and best adapted to effect such purposes. By the same Act they are further directed to meet by their proper officers forthwith and from time to time as they may agree to discuss and to effect by agreement if possible the purposes set forth in the Act.

The Trustees of the Canadian National Railways felt that if they were to carry out the obligation thus imposed upon them by Parliament itself, they could not, consistently with their duty, enter into any argument or discussion in reference to subject matters which were expressly forbidden by Parliament itself, for

Section 27 of the Canadian National-Canadian Pacific Act (1933) expressly provides that "Nothing in this Act shall be deemed to authorize the amalgamation of any railway company which is comprised in National Railways with any railway company which is comprised in Pacific Railways nor to authorize the unified management and control of the railway system which forms part of National Railways with the railway system which forms part of Pacific Railways."

The Trustees have by their oath of office assumed the responsibility of carrying out on their part the terms of the Act of Parliament, and any attempt by them to publicly answer propaganda urging amalgamation or unified control might, and probably would, place them in a false position.

There might well be an even more serious result. The essence of all co-operative plans is good will and earnestness towards the accomplishment of the object in view. The public controversy of the nature indicated, as well as being improper on the part of the Trustees, would, because of its futility raise obstacles in the way of the plan of co-operation.

What I am seeking to do is to make clear the reasons which, even if I were minded to do so, prevent me from combating propaganda in a battle of words. My desire, and that of my fellow Trustees, is to perform the duties placed upon us by the Act of Parliament, not to dissipate our energies in trying to change it. That is a matter entirely for the Parliament of Canada. We desire to get on the closest terms of co-operation with the Canadian Pacific Railway, and our efforts will be devoted to giving the Canadian people as good a transportation service at as low a cost as is possible, without any desire to hurt our great competitor.

Mr. HANBURY: I wish to congratulate the chairman of the board on the statement he has just read to this committee. I believe it will go far to alter the view that the public have been given and many of them hold of the hopelessness of the Canadian National Railway.

Hon. Mr. EULER: I would like to second what Mr. Hanbury has said. I think the chairman is to be congratulated on the statement. There is just one suggestion I would like to make or, perhaps, enquire in regard thereto. I agreed with him when he said that it is not his desire to enter into a public controversy with the heads of the C.P.R. I wonder whether I might ask him if there is anything in the most recent speech that was delivered by the president of the Canadian Pacific Railway, so far as facts are concerned, when referring to the Canadian National Railways. I am casting no blame upon Mr. Beatty for making any statement which he chooses to make believing it to be true. I would like to ask the chairman of the Board whether there is anything in that last statement—I have no doubt he has a copy of the printed speech—which in any way conflicts with the facts—for instance, with regard to capitalization and the interest to be paid and so on. I would like to add that while I agree with the chairman that he need not get into any public controversy with the other railway, nevertheless whenever anything does issue from that other railway, if it does, which seriously prejudices in the minds of the public the interests of the Canadian National Railways, then, in my mind it becomes the duty of the chairman of the Board to combat and contradict such statement.

There is just one other point I would like to remark upon, and that is with regard to the writing down of the capitalization. He makes a reference to the report of the official auditors of the Canadian National Railways, and I think I am right when I say that the suggestion which he makes, under which the capitalization would be reduced by something like a billion dollars. I think, would require merely bookkeeping entries in the books of the Canadian National Railways.

Hon. Mr. FULLERTON: Correct.

Hon. Mr. EULER: Now, there is this anomaly that on the books of the federal government, or the Minister of Finance, if you like, the amounts which are still being carried as assets on the books of the railways, such as deficits and things of that sort, the taking over of stocks which have no value at all, and interest on investment—there is this anomaly that the Board is carrying those items on the books of the railway as liabilities, while the government is no longer carrying them as assets.

Hon. Mr. FULLERTON: That is the correct position, as I understand it.

Hon. Mr. EULER: Now, the Board is in very complete charge of the railway, and I should think, without regard to any future writing down which may be made on the basis of the possibility of the earning of revenues on a fair capitalization that they could, at least, reconcile their books with those of the government. It is merely a matter of bookkeeping, and I would make the suggestion that if it is not a matter of policy for the government to deal with—as a matter of fact the policy of the government, by its action, has been to write this off, to write them into the national debt, and they are not any longer to carry them as a charge against the national railways—then why in the world should the national railways carry as liabilities, charging themselves with liabilities to the government, which the government itself is not carrying as assets? It seems to me it is quite anomalous, and I think it would be quite within the province of the directors of the Canadian National Railways to, at least, write that off.

I quite appreciate also that there should be some further survey made to place the capitalization of the national railways, after very careful survey, on some definite principle—perhaps as to actual physical value of the road and the fair earning capacity, and then, later on, make a further reappraisal and write down further the capitalization.

Hon. Mr. MANION: Just to make that clear. There has been no change, as far as I know, in the method of bookkeeping.

The CHAIRMAN: It has always been carried in the same way.

Hon. Mr. EULER: I understand that it has been done in a certain way, but I am not wedded to precedent alone. In fact, sometimes some of my lawyer friends make the suggestion that something has always been done in a certain way; that seems sometimes to me to be a good reason for changing it. I am making no criticism of the present government, and certainly not of the former government, but I am suggesting that we would be quite consistent if the railway reconciled its books with those of the Canadian government.

Hon. Mr. FULLERTON: There is some doubt whether that that could be done without referring it to parliament.

Hon. Mr. EULER: It seems to me it would be only common sense to do it.

Hon. Mr. MANION: We had better know whether that is true or not. If you do not mind I would like to call Mr. Roberts of the Department of Finance. I do not know the answer myself.

Mr. B. J. ROBERTS: Mr. Chairman, I would say no; because parliament has authorized the Department of Finance to pay out certain monies as a loan to the Canadian National Railways at such rates of interests as the Governor in Council may determine; and until parliament, either through the operation of the Public Accounts Committee, or by statute, changes that situation, we are bound to charge the railways—to set up in our books, in the first place, the amount as an asset—and to charge the railways interest, and the railways themselves are bound to regard it as a debt owed just as much as any other debt, although I think a large amount of it has been vitiated by losses.

Hon. Mr. EULER: There must be a difference of opinion, because I understood, with all respect to the chairman, that it was included in the national debt. May be I am wrong in that.

Mr. ROBERTS: You are not wrong in that; but we set them up as assets—as non-active assets, and in estimating our net debt we do not deduct them from our gross liabilities, as we do, for instance, with the cash we have on hand and the assets earning interest.

Hon. Mr. MANION: Non-active assets are assets you do not expect to collect?

Mr. ROBERTS: Yes. Legally they are still obligations, and that is just the point. The railways are not free, the railways are bound by their debt. They give us security in the form of a promissory note, or some other form of security. In the old days, we received bonds, but, now we receive obligations in the form of promissory notes which carry interest. But the government has never carried that interest into its revenue account; otherwise, it would be fictitiously expending its revenue. The government has never written its assets off—the loans are shown in the public accounts as non-active assets.

Hon. Mr. EULER: Are you carrying in the form of notes or in some other documentary form all these liabilities which you regard, from the government's point of view, as non-active assets?

Mr. ROBERTS: Yes, to the extent of some \$655,000,000.

Hon. Mr. EULER: You are carrying them in the form of notes. Have you notes to show for them?

Mr. ROBERTS: We have security for every one of these advances.

Mr. SMART: Page 21 of the annual report, gives a list of the government loans.

Mr. FRASER: What difference has there been in the treatment of the deficit during the past two years?

Mr. ROBERTS: In the last two years the deficits have been written right out as government expenditures; there is no asset for that; but I am speaking of what stands in the books now as loans and what the auditor's report refers to as being the amount of Dominion government account. Following the Act passed last year based on the report of the Royal Commission, the current deficits are not capitalized; they are charged to the expenditure of the Dominion just the same as the cost of the House of Commons. The only thing I wanted to be clear on is that parliament must take action before the Department of Finance can relieve the railways of their liability for the loans, and before the railways can be free of the obligation of carrying these accounts as liabilities in their books.

Mr. GEARY: That has been done from time to time by legislation—they have been transferred to non-active?

Mr. ROBERTS: Yes. That is not by legislation. The transfer to non-active is done in the discretion of the Minister of Finance on a report to parliament. There is no legislative action about it. If you look at the public accounts, so far as the balancing is concerned there is no difference between a good asset and a bad asset—they are both on the asset side; but in estimating the net debt for the purpose of indicating to the country what the real burden of debt is, the active assets are reduced from the gross liabilities to arrive at the net debt. Now, in arriving at the burden of debt on the public of Canada, we do not consider as active assets or as any relief from the burden of carrying the debt, anything that the government has put into railways, totalling \$665,000,000.

Mr. FRASER: Have you any precedent for the writing off of such a debt as the railway debt?

Mr. ROBERTS: In the old days the Public Accounts committee used to meet more or less regularly and go over the items in our assets, and from time to time they have authorized writing off certain sums. That was their function in that respect for years.

Hon. Mr. EULER: In your opinion, would it be the proper thing to do since there are these non-active assets which you never collect, to write them off?

Mr. ROBERTS: I would not care to express my opinion upon a matter that concerned parliament.

Hon. Mr. EULER: Parliament has not any opinion so far.

Mr. ROBERTS: As a matter of fact, the public accounts of Canada serve two purposes—one to portray the debt position of the country, and the other is a record of expenditure. For instance, we have in our books the cost of the parliament building in the capital expenditures, but so far as being an active asset, in the sense of earning anything, they do not exist. The public accounts serve two purposes—they are a record of expenditures and they are a statement of assets and liabilities.

Mr. FRASER: Would the proper position be to have the Public Accounts committee get together and recommend the writing off of such items?

Mr. ROBERTS: All I say, Mr. Fraser, is this, that some form of parliamentary action is required before the railways can be released.

Mr. FRASER: And heretofore the Public Accounts committee have dealt with such things?

Mr. ROBERTS: Yes, the Public Accounts committee can do it.

Hon. Mr. MANION: I asked Mr. Roberts to speak in order to avoid any misunderstanding, because Mr. Smart took that stand. The railways cannot do this without the consent of parliament?

Mr. ROBERTS: Yes. I should perhaps explain that there is one small item which we carry as an active asset which goes back to the old days when we were operating Canadian government railways as government property. The stores and open accounts of the Canadian government railways were carried in our books as an active asset and the amount still stands in that way. Otherwise, the whole railway expenditure of the Dominion is non-active.

Mr. MCGIBBON: Can you tell us what part of the money that has been advanced to the railways is due to covering up deficits and how much is for expansion and so forth?

Mr. ROBERTS: I think they were substantial figures for deficits according to the certifications of the amounts paid—between three and four hundred million dollars went for deficits.

Mr. HANBURY: Does that include the Intercolonial?

Mr. ROBERTS: No, only the government railways from the time they were amalgamated in one operation in 1923.

Mr. MCGIBBON: According to the Duff report I think the figure was \$450,000,000 for the last ten years. On the period their examination covered that went to cover up deficits; about an equal amount went to betterment and expansion of the road.

Hon. Mr. MANION: I have the actual figures here as given to me by my department. They are along the lines of those stated by Dr. McGibbon—not quite so much—about \$400,000,000 out of the government debt apparently went for deficits.

Mr. FRASER: Since 1923.

Mr. ROBERTS: Oh, no.

Hon. Mr. MANION: These are all the advances. A little over \$300,000,000 went into capital.

Mr. McGIBBON: I do not like to dispute your figures, but I think I am certain of my figures as far as the Duff report was concerned. \$912,000,000 were added to the debt of the railways for the period their examination covered, and that was split about fifty-fifty approximately.

Hon. Mr. MANION: That is not very much different from what I said.

Mr. McGIBBON: I would like to ask Mr. Fullerton a question: is this \$11,630,000 an operating profit for the first five months?

Hon. Mr. FULLERTON: No, gross revenue. Operating profit to the end of April was a little over a million and a half.

Mr. McGIBBON: You have a million and a half up to the end of April?

Hon. Mr. FULLERTON: Last year we were down four and a half millions.

Mr. McGIBBON: That is for the first three months or four months you have an operating profit of one and a half million dollars to apply to the \$57,000,000 interest?

Hon. Mr. FULLERTON: Yes.

Mr. McGIBBON: Can you give us any idea what operating profit you anticipate for the year?

Hon. Mr. FULLERTON: About \$15,000,000, net revenue.

Hon. Mr. MANION: May I clear up one point. Mr. Fullerton agrees, but it is not in his statement. That is, that even by the refinancing suggested, (so far as the money owing the government is concerned) it would not make the difference of a dollar to the Canadian National Railways because they are not paying anything on that to the government.

Hon. Mr. FULLERTON: Well, no; that is perfectly true.

Hon. Mr. EULER: Of course not. I think that is admitted by everybody.

Hon. Mr. MANION: No. I know that you know and members of the committee know it, and it is probably known to members of parliament who have given the matter any study; but I am not speaking of members of parliament but of the general public, and, after reading articles and statements made outside I know they are not familiar with it. I have had a statement sent to me, for example, positively asserting that if we would wipe out this debt to the government we would put the Canadian National Railways in a position to pay its way. I want it understood that by wiping out the whole \$1,400,000,000 owing to the government this minute it would not make one dollar of difference in the way of earnings or net profits of the Canadian National Railways.

Hon. Mr. EULER: We find a good many people in this country, especially in eastern Canada and some in Ontario, making the statement that if we were to hand over the Canadian National Railways to the C. P. R.—they say give them away—one man suggested selling them for a dollar—we would be better off. Well, I would not favour that. I think the public should understand that even if they got rid of the Canadian National Railways, let us say to the C. P. R. which is about the only concern that might think of purchasing them, we would not get rid of the liability; they would still have to pay.

Hon. Mr. MANION: That is, the debt owing to the public.

Mr. GRAY: I am glad the Minister brought out that particular point. At the same time our opponents are using that in the picture, and it will, at least, give us a new picture of the set-up of the Canadian National Railways. I agree with the Minister in regard to this matter and with Mr. Fullerton, the chairman of the Board, who has dealt with it so ably in his report. I think some action will have to be taken. I have been a member of the committee for some six years. We have talked about it, and every member of the government has discussed it. I was in hopes that you, sir, would have taken some action in connection with it before you had to relinquish the position of Minister.

Hon. Mr. MANION: I am not relinquishing the position.

Mr. GRAY: I am afraid, perhaps, that is too good; but there still may be time, with your initiative, sir, to take action at once. However, I do want to join with others who have expressed their congratulations to the chairman of the Board in regard to his report. I want to mention one thing with regard to the meetings that have been held, to the reports of those meetings and the statements made by the chairman in the Canadian National Railways magazines. I agree with those statements 100 per cent. They have helped the morale of the employees of the Canadian National Railways, and have helped to bolster up the feelings of the general public with reference to the Canadian National Railways. I hope the Canadian National Railways will continue to hold these meetings such as have been held in Toronto and Montreal. But I rose to my feet with the object of asking a question with respect to co-operation. While the chairman of the Board has stated that he does not intend to enter into an argument on this particular point and that he does not intend to question the rights of Mr. Beatty, nor do I, to make whatever statement he sees fit—he is the president of a privately owned road and may be in that position while I am not—yet, the members of this committee are trying to give the chairman and his board of trustees of the Canadian National Railways a fair chance under the new set-up under the Canadian National-Canadian Pacific Act of 1933. Now, I find that Mr. Beatty, as late as May of this year, states that when the insufficiency of co-operation is clearly established—this is found on page 16 of his report—after stating first the duties that were imposed under the Act—then he goes on to add: “We do not propose to leave the Canadian Pacific open to the charge that by its attitude it did anything to wreck the plan.” Now, what hope have we of getting anywhere when a man will say virtually—when the insufficiency of this plan is clearly established—in the meantime we are going to pretend we are co-operating, but simply for the purpose of preventing the public saying they had not tried. On page 21 he goes on to say: “The policy of compulsory co-operation, although it is being given a fair trial, offers little promise of substantial relief” and so on. I deprecate remarks of that kind, although I realize that not much can be done about it. But there is a matter that I feel can be brought to the attention of this committee. In his speeches—not only in this speech—he refers—I am not going to mention the name of Sir Henry Thornton, although he does, by the way—but he brings in the name of Mr. Fairweather, economist of the Canadian National Railways, as stating that estimates of those savings were made at various times. The words used are: “Estimates of those savings were made at various times by the late Lord Shaughnessy, by the late Sir Henry Thornton, by Mr. Fairweather, economist of the Canadian National Railways, and by the present officers of the Canadian Pacific. These submissions can be regarded with respect as fruits of deep study, conducted by men of experience. All of their estimates, though made at different times, are very similar in result.” Now, Mr. Chairman, in my reading of the various speeches Mr. Beatty has brought this out, that he has used in those speeches the names of Canadian National officials. I mention particularly the name of Mr. Fairweather who is here to-day and who has given evidence before this committee and for whose opinion the committee has the highest regard. Now, Mr. Fairweather, in my reading of the Duff report, does not bear that out. Mr. Fairweather gave an opinion before the Duff Commission with respect to this matter, and my reading of it does not bear that out that in the final analysis he did believe that the saving which Mr. Beatty now says can be effected by amalgamation can be made. Now, that is my reading of his evidence. I may be wrong. But once and for all I suggest that in fairness to the Canadian National Railways and in fairness to Mr. Fairweather himself and to this committee we should hear from either Mr. Fullerton or Mr. Fairweather whose name has been used. I think Mr. Fairweather will be quite competent to answer for himself. If that is a correct statement let us know it; if it is not, let us know it.

Hon. Mr. FULLERTON: Mr. Chairman, I am glad this point has been brought up. This is, of course, the difficulty with which we are faced. There is a statement made, a deliberate statement that Mr. Fairweather stated that savings of around \$55,000,000 could be made. Mr. Fairweather says that that statement is most misleading. I would ask, Mr. Chairman, that Mr. Fairweather be permitted to make his statement.

The CHAIRMAN: Certainly. The Committee will be very glad to hear from Mr. Fairweather.

Mr. FAIRWEATHER: Mr. Chairman and gentlemen, this coupling of my name with estimates made as to the huge economies that would result from amalgamation may be looked at as rather threshing straw, because the whole subject was thoroughly canvassed by the Royal Commission. It is true that in my evidence before the Royal Commission I did submit an estimate of the theoretical economies which might be anticipated from consolidation. I did that at the request of the Commission; they specifically asked me to do it in a technical sense so that they might be informed as to the top amount which a technical officer would set as to the economies from amalgamation. In discussing that estimate in detail, I pointed out to them the serious qualification that went with them, because it is one of those things which it is easy to put down on paper but terribly hard to translate into accomplishment, and you will find that is characteristic of every estimate bearing on the unification of railways or of any other enterprise. For instance, down in the United States only last year a man came forward with a plan to effect economies of \$730,000,000 in the railway bill of the United States if they would only unify the property. That particular project was subjected to searching scrutiny by the Federal co-ordinator, and after searching scrutiny the \$730,000,000 dwindled to some \$200,000,000 odd. And so it is still a paper figure. I pointed out similar things to the Commission. I also pointed out that in attempting to put such a program into effect there would be a profound disturbance in the industrial and economic development of the country; that if the railway were damaged a vital part of the country with its lines of railway feeding lumbering interests, mining interests, agricultural interests, industrial sections of the country, furnishing employment and things of that character—terminal facilities, roundhouses, divisional points and all the rest, would be hurt. If an attempt were made to carry out anything like the scale of economies such as I have theoretically set down you would get into a position where you would do a very great deal of damage to the country at large; and, therefore, with regard to economies that, from the railway point of view, from the narrower railway point of view, I might say, "Yes, you can shut the shop up." If you want a specific instance we might take the Stratford shop. Yes, you can shut the Stratford shops up and concentrate the work in the ships, say, at Montreal, and you will effect an economy. Or you can shut down some railway shops in the city of Quebec and effect an economy. Or you can shut down the Moncton shops and effect an economy. But when you do it you must realize that from the national standpoint you are changing the whole industrial picture of the country.

Hon. Mr. EULER: Or when you buy coal in Nova Scotia which you can buy cheaper in the west?

Mr. FAIRWEATHER: Yes. I pointed that out also that if at that particular time we had been absolutely economical in our attitude we would not have purchased one pound of rails in Canada, and we would not have purchased one pound of coal from the Nova Scotia mines at that particular time.

Hon. Mr. MANION: Before you get away from that. I do not know that that statement should go out bodily. I think that statement should be modified.

Do you mean to suggest that at no time you could have bought rails in Canada as cheaply as in the United States?

Mr. FAIRWEATHER: No, sir. I said at that particular time. The market was such—

Hon. Mr. MANION: At what particular time?

Mr. FAIRWEATHER: At the particular time which was mentioned in my evidence.

Mr. MCGIBBON: Do you think that was a fair statement to make?

Mr. FAIRWEATHER: It was a statement, anyway.

Hon. Mr. MANION: I do not think it is good to pass out into the country generally that at no time could we have bought rails in Canada at a comparable price with railways in the United States, and the same applies to coal.

Mr. FAIRWEATHER: I certainly would not desire to make such a broad statement, and in that sense I would retract it.

Mr. CANTLEY: It is not correct in regard to coal.

Mr. FAIRWEATHER: At that particular time—

Mr. CANTLEY: At no particular time is it correct in regard to coal. That statement is quite unfair and should not go on the record.

Mr. FAIRWEATHER: Well, I^e would be quite willing to retract it, sir. I simply made it in passing.

Mr. CANTLEY: There never was a time when you could not have bought coal in the province of Nova Scotia at less than you paid for it.

Mr. FAIRWEATHER: In Nova Scotia?

Hon. Mr. EULER: Either it is true or it is not. It has been established in this committee that an allowance was made for national purposes to buy coal in Nova Scotia. I am not particularly criticizing that, but I do not think it is fair to charge that against the Canadian National Railways as a business proposition.

Hon. Mr. MANION: I do not think it was a fair statement to make. The reason I interrupted Mr. Fairweather was that I did not think it was a good thing for the welfare of this country that the idea should go abroad that we cannot manufacture rails cheap enough, because I understand we can manufacture them and sell them for the same price as they sell them in the United States, and if I am not badly mistaken, when the Canadian National Railways buy rails, as a rule they pay the same price for them in the Canadian plants as they would pay in the United States.

Hon. Mr. EULER: I do not know about rails.

Hon. Mr. MANION: That is the reason I interrupted Mr. Fairweather.

Mr. GRAY: Let us call it a draw between rails and coal.

Hon. Mr. MANION: I think the fact is true about coal to a certain extent also.

Mr. FAIRWEATHER: Might I be permitted to withdraw the statement I made with regard to this matter? I gladly do it. It is really not pertinent to this particular subject. I further pointed out to the Commission that it was very doubtful if the economies, even if they could be put into effect would stay put, because from my experience in the railway game there is nothing that keeps us on our toes so much as the friendly competition of the Canadian Pacific Railway. If that were absent, it is my personal opinion that there would be a slackening of the morale of the organization, and it would take only a very slight slackening of the morale of the organization to reduce its efficiency and increase operating expenses.

Hon. Mr. EULER: Is there not a slackening in the morale for other reasons?

Mr. FAIRWEATHER: I was merely discussing—

Hon. Mr. EULER: When you are discussing morale—

Mr. FAIRWEATHER: —competition as compared with unification; and one of the criticisms I made of unification was that in my opinion there would be a slackening in the morale of the organization. On the other hand, I held that a considerable realizable economy, as distinct from theoretical economy, could be effected by a sensible policy of co-operation between the two systems.

Mr. McGIBBON: May I ask how much that would amount to in dollars and cents?

Mr. FAIRWEATHER: Well, in dollars and cents it is almost impossible to put a figure on it, because it really depends upon how far you wish to go and how ruthless you wish to be.

Mr. McGIBBON: You have effected a sum to the amount of one million and a quarter; is that approximately the maximum?

Mr. FAIRWEATHER: I should say that with the opportunity for co-operative economies there is lots of field for it. Therefore, taking all in all my estimate which I made to the Royal Commission, I warned them that it was a theoretical estimate; that it was not a realizable figure, in my opinion; and that it was made at their request so that they might have the advice of a railway technical officer as to what might be accomplished, but when the various implications of it were brought out I qualified it by saying that I personally was not in favour of amalgamation—I was in favour of co-operation.

Hon. Mr. MANION: Have you said what your estimate of possible economies was on what you call a theoretical basis?

Mr. FAIRWEATHER: Of course, that depends to a great extent on the traffic base. It was the year 1930 which I took for the statement, and the theoretical economy I set at about \$55,000,000. This you could achieve only after a long period of adjustment; you could not do it instantly. As I say, it is subject to all these qualifications, and to that would be added a possible million and a half as the interest on released material—locomotives, cars, rails, abandoned lines and things like that. But that was a purely theoretical figure.

Hon. Mr. EULER: I do not want to delay the proceedings, and I certainly do not want to embarrass the chairman of the Board, but I have made reference to the speech which we have in print before us by the president of the C.P.R., and I asked the chairman of the Board as to whether, in his opinion, there were things there that were, perhaps, not according to facts as he sees them. I am not accusing Mr. Beatty or willingly making any wrong assertions, but just to bring to a point what I mean, and there may be other items, I will read from the speech: "The greatest annual revenue which the Canadian National ever enjoyed was \$304,000,000 in 1928 from which they saved \$44,000,000 for interest, and that was only 33½ per cent of the amount necessary to pay interest at 5 per cent on the total debt as at the end of 1931." That would indicate that \$44,000,000 was only one-third of what was necessary to pay the interest which means that the interest was about \$130,000,000. Well, that, of course, is based on this crazy, absurd top-heavy capitalization of two and a half billion dollars.

Hon. Mr. FULLERTON: Even at that, it is a third over.

Hon. Mr. EULER: I am glad to hear the chairman of the Board say that, because I think when these statements come out as they have come out they are just giving ammunition to the enemies of the Canadian National Railways to discredit the road; and not only that but to discourage the Canadian people with the Canadian National Railways, and they are giving a blacker picture than we have any right to allow to continue. That is one reason why I say we ought to make that bookkeeping entry. If we have to get that permission from parliament, well and good. Because it does not give a fair picture to the Cana-

dian people of the Canadian National Railways. I again repeat that when it comes to statements made by a man so prominent as the president of the C.P.R., and when those statements are misleading to the general public, prejudicing the views of the Canadian public in regard to our own railway, I think with all due respect that it becomes the duty of those who are in charge of the Canadian National Railways to correct that impression. I am not advocating that they get into a controversy with the C.P.R.

Mr. McGIBBON: That is a matter of arithmetic. The debt on the railways is \$2,600,000,000. At 5 per cent that would be \$130,000,000.

Hon. Mr. EULER: But in that you are including all these ancient deficits, some of them existed before the Canadian National Railways was in existence. I do not think it is fair to charge that upon the railways; it is not fair to burden them with that. I am impressing that again to show that it enables others to continue this wrong impression and to enlarge upon it.

Hon. Mr. FULLERTON: May I explain that in 1928 we had \$45,000,000 odd net available for interest. The interest due the public was \$42,000,000. We had \$3,185,000 over and above what would pay the interest due the public. That was the situation in 1928.

Hon. Mr. EULER: It would not be correct to say that only supplied one-third of the interest that was paid.

Hon. Mr. FULLERTON: I cannot understand it.

Mr. FRASER: That would be the peak year?

Hon. Mr. FULLERTON: That would be the peak year.

Hon. Mr. EULER: It is bad enough without having it exaggerated.

Mr. GRAY: Having heard what Mr. Fairweather has said, and in view of the fact that I have read, prior to our discussion last year, the evidence somewhat carefully, after hearing Mr. Beatty, and Sir Henry Thornton and Mr. Fairweather's explanation which jibes with my recollection of the reading of the report, that commission which was seriously considering the whole matter gave us their report against any amalgamation, and the Minister sponsoring the Bill also added a clause to that effect. I say that once and for all if Mr. Beatty wants to have his plan he is perfectly justified in going up and down from Vancouver to Halifax and talking to the full extent and printing thousands or millions of copies if he so desires, but he must leave out of his discussion the names of Canadian National officials unless he is authorized to do so.

Mr. McGIBBON: Mr. Chairman, I rise only to speak on behalf of one class of people—the Canadian taxpayer. Now, it is true that we had a surplus in 1928, but we would be far from producing a surplus to-day. 1928, probably, was the peak year in business and may be for a good many years to come, but a surplus then of \$45,000,000 would create quite a deficit to-day. Then, to my mind, this country is going to be faced in the future with an expansion for betterments and for replacements. I have watched the stock of both railways and I would say as an observer it is being depreciated. It is standing out there under the heavens for 365 days; at least a lot of it is. I am not speaking on behalf of railway men. The Canadian National Railways, as I said are our property. We should do everything to conserve them for the Canadian people. But the Canadian taxpayer is pretty heavily burdened to-day. Now, I think the present system should continue for a reasonable time, but I do not think we should put out of our minds the possibility of reducing the taxation in this country by joint operation. I have made these remarks before in the House; they are not new. Amalgamation I am opposed to. Joint operation, if it would conserve to the people anything like the estimates given to us even by Mr. Ruel, by Mr. Beatty or by Mr. Fairweather—and I think I am at liberty to quote—as Sir Henry Thornton said, it would save \$75,000,000. Of course,

there are difficulties. The first difficulty is in regard to replacement of labour. I would say that if we have to come to this in a year or two we should take part of that \$75,000,000 and give those engaged in labour who are displaced a pension until such time as they are recalled. I suppose putting these two roads together for joint operation would probably take six or seven years, and the replacement in labour is about 5 per cent per year. I think, possibly, labour would not have very much to fear. The best evidence I can give you about the benefits of this plan is to take that pool train which runs from here to Toronto; they simply make us use all the upper berths. Unless you order a berth three or four days ahead you simply cannot get a lower. I have had to travel over half the time in an upper berth because I cannot be sure when I am coming back, and I have had to wait until the last minute to get one.

Hon. Mr. EULER: Exercise is good for you.

Mr. McGIBBON: Yes. What I want to get over is that everyone here is interested in these railways. Surely we are interested in the taxpayers of this country; I do not think we should obliterate the alternative plan, as Mr. Gray says.

Mr. GRAY: I did not say that. I said Mr. Beatty could go ahead.

Mr. McGIBBON: I am not concerned with Mr. Beatty more than the others. I think it is unfair to expect the trustees in the few months they have been in operation to work miracles. That cannot be done. The discouraging fact to me is that there has only been a saving of \$1,250,000. Certainly, we have a debt to the public, and I am excluding everything else. It is gone and can be thrown into the sea. You might as well forget it, except, probably, as a monument to our incapacity in the past. If we can do anything to relieve this \$57,000,000 of debt we owe to the public and which we have got to pay I think we should consider it with an open mind. If you can in the next year or two make reasonable progress under the present system, well and good. The difficulty I see is that we have got to have a much larger operating profit than we had even in 1928. Was it \$43,000,000 we owed to the public at that time in interest?

Hon. Mr. MANION: Forty-one.

Mr. McGIBBON: Now, it is \$57,000,000. That is over a one-third increase in our debt. I cannot imagine we are going to increase our traffic in this post-depression period to that extent. Depreciation is a very serious thing in railways. We are making no provision for it. As far as I am concerned I approach this subject with an open mind, and I would like to assure labour that if there is any displacement and any unification that they will be put on a reasonable pension until such time as they would be reabsorbed into the system. But the main thing is to cast our eyes into the future to get a proper railway system for this country that will not bear too heavily on the taxpayer. God knows we are taxed to death now.

Hon. Mr. EULER: In connection with the matter of increasing the revenues, one of the chief difficulties which the railways have had to face—both railway systems—has been the competition which has come to them in the last few years of the truck and the automobile. Would the chairman of the Board care to say whether they have any plans under which they might, perhaps, go into that field themselves and whether that would assist the situation?

Hon. Mr. FULLERTON: We have already done a lot of that.

Hon. Mr. EULER: I know. Have you any extended plans along that line.

Mr. HUNGERFORD: Mr. Chairman, and gentlemen, the subject of truck competition has been before the railways ever since it developed and a good many different plans and schemes have been thought of and studied. I do not think they have found the complete answer yet, but we are experimenting in conjunction with the Canadian Pacific in certain territories and by ourselves in other

territories and we feel we are making measurable progress in that direction. It is a fact that the development of the truck service has probably deprived the railways of a considerable portion of their revenue, not very large on a percentage basis, but still worthy of consideration, and it is very doubtful whether it can be entirely taken care of; but the measures we have in hand at the present time show certain amount of result in bringing back a measurable portion of that traffic.

Hon. Mr. MANION: In that regard, the cheap excursion trains you have been running for a year or so have brought to the company a good deal of passenger traffic, have they not?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: I think it is worth while. You might elaborate on that.

Hon. Mr. EULER: Can you make money at a cent a mile?

Hon. Mr. MANION: Yes, they can make money.

Mr. HUNGERFORD: When you get a certain number of people travelling on a train you could make money even at that rate, but the trouble is if you run these trains too frequently you would not get the number of people.

Mr. HANBURY: In connection with these excursion trains, I notice they do not permit the people to have baggage, and they don't permit them to sleep unless they can sleep sitting up. Is there any particular reason why you could not afford sleeping accommodation for them at reasonable prices?

Mr. HUNGERFORD: Of course that materially increases the cost; at that low rate it was not felt that we were justified in providing more facilities. The rate is very low, of course.

Mr. HANBURY: Have the railway company been giving consideration to the new type of locomotive and the new equipment that is being tried out in the United States?

Mr. HUNGERFORD: We are just watching results in the United States.

Mr. FRASER (*Cariboo*): I have one question that I want to ask in connection with the statement made by the Chairman of the commission. It is rather surprising to me that on page 2 of the report, the third paragraph from the bottom of the page, the last two sentences: "In this connection I may mention it is costing us over \$2,000,000 a year in exchange on amounts required to pay interest in United States and sterling funds. This will be saved if and when Canadian currency can be stabilized on a parity with such funds." Of course, I may be very ignorant in a matter of this kind, but I thought our funds at the present time were pretty well on a parity, and I wondered why it is costing the railway \$2,000,000 at present to pay the exchange on our currency.

Hon. Mr. FULLERTON: We pay a premium on sterling purchased.

Hon. Mr. MANION: But this is when you are paying on it.

Hon. Mr. EULER: We are at a discount.

Hon. Mr. FULLERTON: In Canadian funds.

Hon. Mr. EULER: What about the other?

Hon. Mr. FULLERTON: On United States funds the exchange is about even.

Hon. Mr. MANION: I presume that is for 1933, in the past year, because at the present time I do not think it amounts to anything like that.

Hon. Mr. FULLERTON: Probably not. I think these are last year's figures. I didn't check that up.

Mr. GRAY: I didn't intend to bring this up, but Mr. Hanbury mentioned it and Mr. Hungerford answered. It is in connection with the extra cost of excursion trains. I merely give it for my own experience. On these general excursion trains I agree that what Mr. Hungerford says it quite correct, that

you can't afford extra expenses, but my experience has been that a great number of your excursions are run attached to the regular train. For instance, I have been a passenger on trains coming from Toronto to Ottawa and from Toronto to Chicago, run as part and parcel of the regular run. It does seem to me, and I have heard many complaints about it, that if there is available space on that train, that the vacant sleeping car or chair car should not be permitted on these regular trains, but filled up. There may be some reason. I was just following up what Mr. Hanbury said. I can't see the reason for the empty trains, on the regular trains. Is there some reason, why, on the regular trains, we should not be permitted to take their money Mr. Hungerford?

Mr. HUNGERFORD: Well, the thought is that you would be providing these superior facilities at a very greatly reduced rate, one out of all proportion to the regular rate at which people have the privilege of using these facilities. Of course, sleeping cars and chair cars are used by only relatively few people.

Mr. GRAY: Perhaps only a relatively few people have \$2.25 to \$2.75 to buy sleepers.

Hon. Mr. MANION: I am trying to see if I get Mr. Hungerford's argument. Did I understand you aright to mean this, that if you carried people say at a cent a mile, as you do on these excursions—I think that is your rate?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: If you provide them with chair cars, or allow them to buy chair cars and pay less money than the ordinary traffic,—either chairs or berth—you would lose money in that way because you would have to put on separate equipment?

Mr. GRAY: I am not suggesting separate equipment, on the regular run I often travel from Toronto to Sarnia, and I am the only person in the chair car. I will be the only individual in it, have a private car. Lots of people will come in there and want to buy a seat, and they are refused because they are on excursion tickets. I am not suggesting any extra equipment, not one space, either berth or chair. What I am saying is "fill up the equipment."

Mr. McGIBBON: That would not be fair to the man who paid the full fare.

Hon. Mr. FULLERTON: That is the idea. If you fill up the space with persons travelling on cheap fares the man who travels at full fare cannot get accommodation and will raise a big row. That is the difficulty.

Hon. Mr. MANION: I have the figures here with respect to exchange last year. Losses on United States funds in 1933 were \$4,500,000. The profit on sterling was \$1,000,000. Then there was a surcharge on collections that was taken from the charge. Anyway, the net loss apparently was \$2,294,000 on exchange last year, 1933. But I take it from that, that you are right, Mr. Fraser, that at the present time they would not be losing very much.

Hon. Mr. EULER: You say losses on United States funds were \$4,500,000?

Hon. Mr. MANION: There are credits against that, bringing it down to \$2,294,000.

Hon. Mr. EULER: There can't be any loss now on United States funds?

Hon. Mr. MANION: That is what I say. Now there will hardly be any loss. The loss in 1933 was \$2,294,000 on the total exchange, whether it was British or American. At the present time I doubt very much if the loss would amount to hundred of thousands of dollars, in fact. It would be a good deal less.

Mr. PRICE: Before the committee adjourns, I have a communication I would like to read in the nature of a complaint from the Saint John Board of Trade and Saint John Dry Dock Company. It is with regard to repairs to the transfer steamer *Charlottetown*, repairs that are going on at the present time in Montreal. As these people have desired I set forth their case, I would

like to read this letter, with your permission, in the way of inquiry and protest against what is done, and also for the attention of the Board of Trustees and the management of the railway. The letter from the Saint John Dry Dock & Shipbuilding Company reads as follows:—

The purchasing department of the Canadian National Railways asked us recently to quote on certain repairs to the car ferry *Charlottetown*, which runs between Cape Tormentine and Port Borden. We quoted on this work in competition with the Halifax Shipyards, Canadian Vickers Limited, Davie Shipbuilding Company Limited and Morton Ship Repairing Company of Quebec, and although I have heard unofficially that our price was about equal to that of Canadian Vickers Limited, the Canadian National, after requesting Vickers and ourselves to amend our prices on account of certain items being eliminated from the specification, finally awarded the contract to Canadian Vickers. She is now at the Vickers yard in Montreal, but I understand she cannot get on their dry dock for a period of twenty days on account of a ship in a damaged condition arriving just prior to the arrival of the car ferry and occupying the dry dock.

The Canadian National Railways operate four car ferries in the maritime provinces, two running between Cape Tormentine and Port Borden on the Prince Edward Island service and two running between Mulgrave and Port Hawkesbury. The first two ferries are the *Charlottetown* and the *Prince Edward Island*; the second two the *Scotia I* and *Scotia II*. These vessels operate exclusively in the maritime provinces and we depend on work of this nature—that is, work originating within the maritime provinces—to keep our organization together and provide employment for the men who are depending upon us for their livelihood. When one considers the number of Canadian government vessels, dredges and other craft operating in the St. Lawrence and the vast amount of work that is necessary to keep these craft in repair and which all goes to the St. Lawrence repair yards, it does not seem fair that the St. Lawrence yards should be asked to quote on the four car ferries that operate exclusively in the maritimes. This work should be divided between the repair companies within the maritime provinces or, if the Canadian National wish to call for tenders from upper Canadian yards, then the same privilege with respect to repair work on other Canadian government vessels in the St. Lawrence should be extended to the maritime yards.

We do not wish to be arbitrary in this matter nor do we want something that we feel we are not justly entitled to, but it does not seem fair that the work which we depend upon for our existence should be made available to the upper Canadian yards when they already have so much business within their own territory and on which they are able to quote exclusively. With the volume of business they have and on which they can depend of obtaining a fairly lucrative price, they are able to quote an exceptionally low and unfair price on work such as the Prince Edward Island ferries and the Nova Scotia-Cape Breton ferries. We are not finding fault with the management of the Canadian National Railways on account of their efforts to obtain the lowest possible prices and thereby keep down their operating costs, but we do feel that if they are going to allow the upper Canadian yard to quote on their maritime province work, then all government repair work originating on the St. Lawrence river should be thrown open to public tender and the maritime yards be given a chance to quote on the work.

I am setting our case before you in the hope that you will bring the matter to the attention of the proper authorities in Ottawa and do all you can to correct this situation.

It is signed by the general manager. I would just like to say in connection with that that it does seem unfair where we have two good, reputable concerns in the maritime provinces, and in view of the unemployment situation which exists at the present time, that these two concerns should not be sufficient to tender on this work. I think the maritime concerns deserve every consideration. As a matter of fact, it has been pointed out with respect to work on the St. Lawrence, that that work is done exclusively by the people in that district, and the maritime dredging companies are not asked to tender. I think it has been the policy of the Canadian National Railways—it is their system—to allot certain repairs in certain districts. For instance, we will take the case of repairs on cars. Certain cars are repaired in a certain division—a certain class of car—and a certain class of cars in another division. The work is distributed about from place to place. I think in this instance the Maritime Drydock Companies should have some consideration, and where there are two of them, in the Maritimes, figures can be submitted by both of them submitting tenders. I think that the work should be given to these people. I may also add that I have a protest from the Saint John Board of Trade along the same line, protesting against the giving of this work originating in the Maritime Provinces to upper Canadian concerns, while in the case of repairs originating in Quebec and Ontario, Maritime Drydock concerns are not asked to tender where work is contracted for. I would like, Mr. Chairman, to ask the general manager or the president of the Canadian National Railway if he could give some explanation, or some promise that the matter will be looked into with a view to trying to meet the wishes of the people of the Maritime Provinces.

The CHAIRMAN: Perhaps the Canadian National Railway's management can make some explanation of the matter referred to by Mr. Price.

Hon. Mr. EULER: I suppose it is a matter of price. That is not a pun, Doctor.

Mr. HUNGERFORD: Well, Mr. Chairman, in regard to Dr. Price's statement, we called for tenders in the ordinary way. During the season of navigation when the St. Lawrence is open, it is customary to call for tenders from the various firms that can be reached at the place at which the boat is located. In this particular instance the tenders were called for from Vickers and Quebec firms, as well as maritime provinces firms, and it happened that Vickers submitted the lowest tender, and the vessel was sent up in accordance with the usual practice of accepting the lowest tender.

Hon. Mr. EULER: Without disclosing the figures—I don't suppose you would want to do that—is the difference substantial?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: Might I say that I am pretty familiar with that, because I have protests from Dr. Price and various others from the maritimes, and I passed them on to the Chairman. There is a statement in that which I think deserves a great deal of consideration by the management, and probably by the government, if the facts are as pointed out. It points out that in the case of the St. Lawrence, government vessels on the St. Lawrence—and after all, these government vessels we pass as a special item we call only for St. Lawrence shipyards to tender; whereas on this vessel which is really distinctively a maritime vessel, apparently tenders were called for not only in the maritimes but in the St. Lawrence. I think they are justified in taking the attitude that it should be the same both ways, because after all, this vessel is distinctly a maritime vessel. I think we will either have to correct that, in the matter of government vessels when they are asking for repairs, either give

the maritime shipyards an opportunity to tender, or treat the maritimes as maritime vessels and have them repaired down there. I think one or the other is necessary, to be fair.

Hon. Mr. EULER: It seems to me there is a very definite principle involved here. Are you going to run the National railways as a straight business proposition, or are you going, to some extent, to make it serve a national purpose? For instance, we have the Maritime Freight Rates Act, and what I mentioned a while ago—I hope I don't raise a delicate subject again—the matter of the coal. I am not making any complaints as to the maritime freight rates or even as to the coal, but I do believe this is sound: If we are going to use the National Railways and pay out their moneys partly for the national purpose, then it is not the National Railways that should bear the resulting loss, it is the national government that ought to bear it.

Hon. Mr. MANION: As a matter of fact, in regard to the Prince Edward car ferry and terminals, we passed it as a separate item. Mr. Smart tells me it is included in the eastern lines deficit. I don't think it is, but he says it is. I am not very sure he is right; but at any rate, we do pass it. The Prince Edward people—I am giving this as a matter of information—themselves asked, for some reason, that this should be passed as a separate item. The loss last year was \$270,000 and we had passed it as a distinct and separate item in the House of Commons.

Hon. Mr. EULER: Is it not charged against railways?

Hon. Mr. MANION: I don't know. I don't think it is. Can you tell, Mr. Fairweather?

Mr. FAIRWEATHER: It is included in the deficit.

Hon. Mr. EULER: I just want again to press on that principle. I don't think it is fair to the National Railways, as a business organization, to charge them with losses—we will call them losses—which they sustained by reason of doing something which is in the national interest and not particularly in the interest of the railways as a business proposition.

Hon. Mr. MANION: In fairness to the C.P.R.,—and I have no other reason—I do know in regard to coal, that Canadian Pacific Railways buys a good deal of Canadian coal in the west, not in the east so much, but in the west they buy a good deal of Canadian coal, where they probably might save money by buying American coal. I am only pointing this out for this reason: Not only is it the duty of the Canadian Pacific Railway to do that—and I think it deserves credit for it—but in the same way it is the duty of the Canadian National Railway at times to do just what they are doing. I think both systems being great Canadian institutions—this imposes a duty in this matter.

Hon. Mr. EULER: I imagine they do that for the reason they want to attract the goodwill of their customers.

Hon. Mr. MANION: Certainly.

Hon. Mr. EULER: If they do that, it is a business proposition. But if it is done in order to aid one section of the country in the national interest, I think it is a government responsibility. I have every sympathy with the people of the maritimes in wanting to have as much work done down there as possible, especially if this particular boat is used in the maritime provinces. Otherwise, I think the other principle is the fair one.

Mr. HANSON (*York-Sunbury*): I am not a member of the committee, but might I have permission to ask one question?

The CHAIRMAN: Certainly.

Mr. HANSON (*York-Sunbury*): Is it not possible that you could arrange to have this work done as cheaply in Saint John or Halifax as you can in Montreal?

Hon. Mr. EULER: The tender didn't say so.

Mr. HANSON (*York-Sunbury*): I am just asking the question. I think it can be done. I know it can be done.

Mr. HANBURY: Why didn't they tender low enough?

Mr. CANTLEY: The other people were asked to tender a second time.

Hon. Mr. EULER: That is different. That is quite a charge.

Mr. CANTLEY: Those are the facts. Here is another point of view. How much did it cost to bring that boat up?

Hon. Mr. FULLERTON: That was all taken into consideration.

Mr. CANTLEY: That is not an answer.

Hon. Mr. FULLERTON: I can't give the particulars.

Mr. CANTLEY: How long was she off the service?

Hon. Mr. FULLERTON: I can't give you particulars without the papers before me. If you want any of those details, I will be very glad to get them for you.

Mr. CANTLEY: When she got up there, it was found that the dock was occupied, is that not true?

Hon. Mr. FULLERTON: I understand the dock was occupied after our ship had left. A ship came in disabled and had to go into dry dock.

Mr. CANTLEY: You take all that risk, bring a boat nearly 2,000 miles, which must have cost something, if you put that in there, and the cost of bringing the boat up, I submit it would cost more than if you had accepted the offer of the Saint John Dry Dock Company. Now, dispute that.

Mr. HUNGERFORD: Well, we have a very competent and able architect who is looking after the work, and Vickers happened to put in the lowest tender. It is quite true that after the boat sailed the dry dock was vacant, when the *Charlottetown* was ordered to go out and when she sailed. But after she got into the St. Lawrence river another vessel got into trouble and was ordered into dry dock by the authorities, because of danger of her sinking.

Mr. CANTLEY: That was a contingency which you did not take into account?

Mr. HUNGERFORD: That contingency may arise with any dry dock.

Mr. HANBURY: Even in the maritimes.

Mr. CANTLEY: You had just the two docks in the maritimes?

Hon. Mr. EULER: Mr. Chairman, Col. Cantley has raised a pretty serious question, or made a pretty serious statement there. I hope that it is not founded on facts. I am not questioning his word.

Mr. CANTLEY: What is it?

Hon. Mr. EULER: I think he stated the tenders were opened, and the St. Lawrence people or Vickers given a second opportunity.

Mr. CANTLEY: I understood second tenders were called for. I ask the committee whether that is correct or not.

Hon. Mr. EULER: That there is any manipulation of that sort, I certainly hope is not so.

The CHAIRMAN: I would like to understand in respect to why it is that the St. Lawrence work is allowed to be only shared in by the St. Lawrence operators, whereas maritime work is also thrown into the St. Lawrence area.

Hon. Mr. MANION: That is not a Canadian National question. Those, as I understand it, are government boats. I don't think the Canadian National have any boats on the St. Lawrence. It is a matter of government boats. That is the statement made in this letter Mr. Price read, a copy of which I have received. It is really a matter of government boats and not Canadian National.

Mr. CANTLEY: That is quite correct. There are a lot of government boats. The St. Lawrence have the whole thing.

Hon. Mr. MANION: I think either all of them should be given a chance to tender on all the boats; or if you are going to limit St. Lawrence boats to the St. Lawrence repair shops, we would limit maritime boats to maritime repair shops. I think that is a fair proposition.

Mr. HANSON (*York-Sunbury*): I agree. I think they all ought to be allowed to tender on all boats.

Mr. CANTLEY: The maritimes would be satisfied.

Hon. Mr. MANION: I am going to look into that further.

Hon. Mr. EULER: Treat them all alike.

Mr. REID: I am not a member of the committee, but might I have permission to ask Mr. Hungerford a question.

The CHAIRMAN: That is quite all right. You are a member of parliament.

Mr. REID: I made a statement in the house in connection with the bonds of the Canadian National Railway, from information given me, that the large bulk of bonds were held by railways in the United States; that is, that they had invested in the bonds that were issued by the Canadian National Railway. For my own information, and for the information of others, I would like to know if that statement has any basis.

The CHAIRMAN: I think it would be rather difficult information to give, because bonds are not usually registered.

Mr. REID: I wonder if you could procure it, if he has not got it now, because I think it should be given.

The CHAIRMAN: Most of the bonds are bearer bonds. I know that to be the case. Only those that would be registered would we know anything about. I don't know whether any officer of the company can tell. Can you give any information about that?

Mr. McGIBBON: Would he not have some idea as to the interest they would have to transmit to New York?

Hon. Mr. MANION: Can anyone give an answer to Mr. Reid's question?

Mr. FAIRWEATHER: The only thing that can be said is that the great proportion of bonds are bearer bonds. It is impossible to trace who owns them. With regard to those that are registered, it would be possible.

Hon. Mr. MANION: They would be a slight proportion of the bonds?

Mr. FAIRWEATHER: A relatively slight proportion.

The CHAIRMAN: Mr. Reid made a statement in the house that he had been told that the bonds of the Canadian National Railway were largely held by railway companies in the United States. I questioned that, because I didn't see how he could get any such information. Now he is trying to get it from you, if you can give it to him.

Mr. REID: Yes. I didn't want the statement to go just as a wild statement, an irresponsible statement. I had made the statement, and I think it should be cleared up. If it is not correct, I think it should be known.

Hon. Mr. MANION: Apparently they don't know themselves, so I don't know how you could have known, may I say, with all respect?

Hon. Mr. EULER: What difference does it make?

Hon. Mr. MANION: I contradicted him. That is the difference.

Hon. Mr. EULER: Does that change it?

Hon. Mr. MANION: That is just the difficulty.

Mr. REID: It was not from that point of view that I wanted the information, because we had settled that in the house. We had agreed to differ in the house. The other question is in connection with the statement made very recently

regarding the abandonment of lines. Let me preface that by saying that I realize the position the Chairman is in, that it might not be wise to give out any premature information.

The CHAIRMAN: In respect to what?

Mr. REID: The abandoning of lines. In fact, when the committee was in session, the plan had been laid before the commission by Mr. Beatty to abandon some 5,000 miles of line, part of which was in the province of British Columbia, and affects, shall I say, the gateway to the Pacific. That plan was not agreed to before the commission, at least by the C.N.R. Mr. Beatty, if I am quoting him correctly, stated that any abandonment should take place between Kamloops and Vancouver, as being just single track, and that is against, I think, the double track. My own people are very much exorcized over the abandonment, due principally to the fact that Mr. Beatty is in favour of the plan, and as it affects the situation in New Westminster, I have been importuned by telegram, since you made the statement the other day, of the proposed abandonment of line. I realize it might not be wisdom on your part to give out any information ahead of time, but owing to the uneasiness existing, I thought I would come down here and ask you.

Hon. Mr. FULLERTON: I am afraid you will have to excuse me from giving that information.

The CHAIRMAN: I might say this: Any abandonment of lines must be approved by the Railway Commission of Canada. Am I right in that?

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: So that nothing is going to be done in a hurry, or without plenty of discussion amongst those who are affected.

Mr. HANBURY: They will have notice before the abandonment?

The CHAIRMAN: Certainly.

Mr. FRASER: I might also say that Mr. Reid is in no different position with regard to the amalgamation, or rather abandonment from what I am. You have the whole of the line from the boundary clear down to Hope, with divisional points—two or three of them—in my territory; and I am continually importuned just as Mr. Reid is.

Mr. MCGIBBON: When do we meet again, Mr. Chairman?

The CHAIRMAN: Unless you can give me some reason for meeting again, I don't know. I want to know what you want to meet for.

Mr. HANBURY: We have not touched the reports yet.

The CHAIRMAN: No, we have not touched the reports. Mr. Gray, I have a motion of yours here. Do you want me to put it?

Mr. GRAY: Yes, if you would.

The CHAIRMAN: Moved by Mr. Gray and seconded by Mr. McGibbon that the committee recommended that it be granted leave to have the day to day proceedings printed, that standing order No. 64 be suspended in relation thereto, and that 500 copies in English and 200 copies in French be printed for the use of the members of the committee and of the house. What is your pleasure regarding that, gentlemen?

Carried.

Mr. HANSON (*York-Sunbury*): Before the committee adjourns, I would like to ask one question; and if the question is premature or if it is embarrassing, it need not even be answered. The question is: Is there any reason why the public should not know what lines are contemplated being abandoned at this stage?

Mr. HANBURY: Negotiations.

Mr. HANSON (*York-Sunbury*): If that question is premature, or prejudices the railway management, I certainly will not press it.

Hon. Mr. MANION: Before the president or the Chairman answer that, may I suggest that there are very great reasons against it. I am only giving you my opinion. I am not in any way in control of these officers, so that they will give their own answer. My feeling is this, that if you spread out the list of the lines that might be abandoned, which are only being considered, the concern by any section of the country that is affected, the uneasiness and discontent would, I am afraid, cause not only the government by the railway management and members to be inundated with complaints.

Mr. HANSON (*York-Sunbury*): That is the reason I asked. Who is going to bear the burden of this? It is the private member of parliament. He is going to be between the millstones on this thing, and I hope the management will give some consideration to it. They don't go to the management on these things. They camp on the doorstep of the private member.

Hon. Mr. MANION: That is right.

Mr. HANSON (*York-Sunbury*): He is blamed if he cannot hold a particular line. That is one of the things I want the Board of Trustees to visualize, because of the action of this sort of thing. Therefore we ought to know, and that we are the sufferers and many a man perhaps will go down to defeat perhaps do something to protect ourselves.

Mr. McGIBBON: I am afraid you are getting back into politics.

Mr. HANSON (*York-Sunbury*): That is all right. You can never get it out of politics.

Mr. McGIBBON: They said they would.

Mr. HANSON (*York-Sunbury*): You can't get it out. Public opinion in your communities won't let you.

Hon. Mr. EULER: That is one of the disadvantages of being a member of parliament.

Hon. Mr. MANION: At the same time, it would not be considered wise, when these things are only really under consideration, and may never be carried out.

Mr. HANSON (*York-Sunbury*): I prefaced my statement with that very thing. I want to be fair.

The CHAIRMAN: The trouble is if a thing is done before the community has a chance of making a protest or giving their opinion, then it is a hardship.

Hon. Mr. MANION: I think I am right in saying that the Board of Railway Commissioners, before they would give any permission for the abandonment of a line, would require that the community affected would have to be notified.

Hon. Mr. FULLERTON: Every person has to be notified, to give them a reasonable opportunity.

Mr. McGIBBON: It has not been done with reference to trains.

Hon. Mr. FULLERTON: That is a different thing.

Mr. FRASER: Your position, Mr. Fullerton, is this. You will, in the ordinary course of your duties, submit that to the Railway Commission and then the public will have an opportunity to discuss it.

Hon. Mr. FULLERTON: Exactly.

Hon. Mr. MANION: I think it is a fact that, under the Railway Act, the community must be notified in due time.

Hon. Mr. FULLERTON: That is quite correct.

The CHAIRMAN: I have invited the members to give me any questions that they want to ask, if there is any information they want, now is the time to get the questions in.

Mr. FRASER: There is just one question I had in mind. I have not got it written out, but I can give it in a general way, so that the officials may be able to prepare the information. In the session of 1931 we had a great deal of discussion as to the salaries and expenses of executive officers. I should like to have a comparative statement of the salaries and expenses of the executive officers at the present time, as compared with the statement that was made at the session of 1931.

The CHAIRMAN: I think that is a reasonable question. We had only under consideration the president at that date, and were promised that certain reductions were going to be made. I have never since been able to see what they are. I think it would be a good thing to check up and see just what has been done.

We will adjourn now and meet to-morrow morning at eleven o'clock.

The committee adjourned at 1.05 p.m., to meet on Thursday, June 7, at 11 a.m.

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SESSION 1934

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

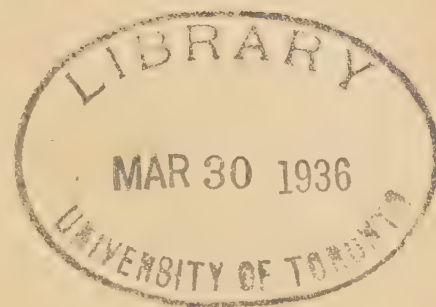
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, JUNE 7, 1934



WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.

Mr. J. E. Labelle, Trustee, Canadian National Railways.

Mr. S. J. Hungerford, President, Canadian National Railways.

Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.

Mr. T. H. Cooper, Canadian National Railways.

Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors, Toronto, Ontario.

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1934

MINUTES OF PROCEEDINGS

Room 231,

June 7, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, in accordance with notice issued, met this day at 11 o'clock, a.m., Mr. Chaplin, the Chairman, presided. The following members were present:—

Messieurs Beaubier, Bothwell, Cantley, Chaplin, Duff, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, McGibbon, Mac-Millan (*Saskatoon*), Manion, Price, and Stewart (*Lethbridge*).

In attendance were: Hon. C. P. Fullerton, K.C., Mr. F. K. Morrow, Mr. J. E. Labelle, K.C., Trustees Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. A. V. Franklin, Auditor, Department of Railways and Canals; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Department of Finance, and Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors.

The Chairman suggested that the Annual Report of the Canadian National Railways for 1933 be discussed.

The following witnesses were called and examined:—

Mr. S. J. Hungerford, President, Canadian National Railways.

Hon. C. P. Fullerton, Chairman of Board of Trustees, Canadian National Railways.

J. E. Labelle, K.C., Trustee, Canadian National Railways.

Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.

Mr. T. H. Cooper, Canadian National Railways.

Witnesses retired and the Committee adjourned until 4 o'clock, p.m., this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m.

Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors, was called and examined.

The Committee adjourned at 5.25 p.m., to meet again at the call of the Chair.

J. P. DOYLE,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS

Room 231,

June 7, 1934.

The select standing committee on Railways and Shipping met at 11 o'clock, Mr. Chaplin, the chairman, presiding.

The CHAIRMAN: Gentlemen, we have a quorum. If you care to discuss and examine the report of the Canadian National system for the year ended 31st December, 1933, the officers are here and can probably answer any question you desire to ask. I am not going to wade through this report; it has been published, and you all have copies; and if there are any questions that any member of the committee wants to ask now is the time to do it.

Mr. GEARY: Mr. Chairman, the general report on pages 1 to 7 does not say anything about the physical condition of the road, does it?

Hon. Mr. FULLERTON: I think that is in the auditor's report.

Hon. Mr. MANION: Do you want a statement on the physical condition?

Mr. GEARY: There is nothing in the report.

Hon. Mr. MANION: The officers say it is in the auditor's report. I think it might be a good idea to have Mr. Hungerford make a statement on the general physical condition and maintenance of the road as to the upkeep and general conditions. There seems to be a general tendency on the part of all roads on the continent to-day to defer their maintenance a good deal.

Mr. HUNGERFORD: That is perfectly true. Obviously, with the great reduction in business it has been necessary to curtail maintenance expenditures, and, on the other hand, the property is not being used to the same extent; but in comparison with other railroads our reductions have not been greater—the physical condition of the property, apart from the equipment, I think, is quite good enough for all traffic requirements.

Hon. Mr. MANION: For good efficiency in every way.

The CHAIRMAN: What do you mean by "apart from equipment"?

Mr. HUNGERFORD: I was going to discuss equipment separately, sir. We have gone on the general principle of trying to keep our main lines in first class condition and the lesser important lines in a condition appropriate to cater to the traffic that has to be handled on them. I think that is based on sound economics.

In reference to equipment, it is quite true we have a considerable amount of equipment that will ultimately require repairs if there is an increase in business; but we have maintained our equipment—a sufficient amount of equipment to take care of all traffic requirements. In that respect we have gone probably further than most railways have on the North American continent.

Hon. Mr. MANION: How many wooden cars have you still?

Mr. HUNGERFORD: About 30,000.

Hon. Mr. MANION: I thought there were about 30,000.

Hon. Mr. EULER: I see in connection with this matter on page 6 of the annual report under the heading "Capital Expenditure" the third paragraph:—

Retirements of equipment during the year consisted of 20 locomotives, 3,590 freight cars, 10 passenger cars and 232 work equipment

units. The original cost of this retired equipment was \$4,688,838 of which amount \$3,974,012 was charged to the years' operating expenses and salvage value was charged to material account.

The thought that occurs to me is that although the depreciation there took place over a long period, apparently it was all charged to the one year. Is that correct?

Mr. GEARY: That is what the Canadian Pacific does, does it not?

Hon. Mr. EULER: You would write off depreciation from year to year, would you not?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: Although the depreciation or wearing out process took place over a period of perhaps ten or twenty years, almost \$4,000,000 was charged against the income of the company or the revenue account of the company I should say—all in the one year.

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: That is a pretty heavy burden for one particular year, is it not?

Mr. McGIBBON: Depreciation, even at 2 per cent, would be about \$25,000,000.

Mr. HUNGERFORD: I think that question has been discussed before this committee several different times. There is a difference in practice between the United States and Canada in that regard. The American roads include depreciation on their equipment; the Canadian roads never have.

Hon. Mr. MANION: The Canadian roads take care of it as they go by replacements?

Mr. HUNGERFORD: As you retire a unit of equipment you charge the whole value of it, less the salvage, to operating account.

Hon. Mr. EULER: This might be the case if it happened in any one year. One year you might find it necessary to make slight retirements and the following year you might have twice as much which would not leave the railway position the same with regard to net income.

Mr. HUNGERFORD: That is possible to a degree, but, as a matter of fact it will go along.

Hon. Mr. EULER: In a period of years it would average up, but from year to year it, perhaps, would not be an altogether correct representation of the fact.

Mr. HUNGERFORD: We are going along on a pretty uniform basis. As we get into equipment which was purchased in later years, obviously we retire, generally speaking, the oldest equipment first, and the older equipment was bought in a period of low prices. Then we gradually get into a period in which the prices were somewhat higher—it was more expensive when it was bought.

Hon. Mr. EULER: You say that is not the practice in the United States. Is it followed generally in Canada?

Mr. HUNGERFORD: Yes.

Mr. GEARY: That is in the railway company—not, for instance, in a utility like the telephone companies?

Hon. Mr. EULER: Is it the same system as far as the Canadian Pacific is concerned?

Mr. HUNGERFORD: Substantially so in principle. There is a little variation in detail.

Hon. Mr. MANION: Mr. Hungerford, I am being approached continually—and I presume this is the experience of other members and other ministers—by the equipment companies, the car companies and the locomotive companies

particularly. They have been pretty badly hit by the depression because neither of the railways have been replenishing their equipment. Would there be any excuse—I mean in a general way—at the present time for going into equipment building? Suppose, from an economic standpoint it could be shown to be useful—that you could use the equipment—and suppose—I am only asking you a question and I would rather this were not quoted in general, although it is not important—suppose there was a decision to assist to a certain degree in the cost of it, would it be good economics, good railway economics, to go in for the construction of equipment in either locomotive or railway cars.

Hon. Mr. EULER: Or railway ties.

Hon. Mr. MANION: They buy ties only as they need them.

Mr. HUNGERFORD: That is really a very complicated question.

Mr. CANTLEY: Before Mr. Hungerford answers that question, I desire to ask some questions bearing on the same matter. I think if I put them now it will save a lot of time. I was going to ask Mr. Hungerford: what is the position of the motive power to-day and if he could give us the number of locomotives carrying a boiler pressure of 200 pounds or over and equipped with super heaters. What advantage would accrue if the railway obtained, say, 40 or 50 of the newer type of locomotives carrying boiler pressures of some 400 to 450 pounds? I would like Mr. Hungerford to be good enough to give his views in regard to those two points which have a bearing on the question the Minister asked a moment ago.

Mr. HUNGERFORD: To answer your first question, I do not think we have any detailed information available here at the moment. We can get it. With regard to the second question, it is obviously a very complicated economic problem, and we are engaged in studying the whole question at the present time. We have reached no conclusion. A good deal depends on what is going to be the trend of traffic. If traffic is going to increase materially it is quite possible that that policy would be justified.

Mr. CANTLEY: What is your idea as to how high you could go on working pressure?

Mr. HUNGERFORD: That is a difficult question to answer; that has not been established.

Mr. CANTLEY: I know it is difficult. What I want to get at is the idea in your mind in regard to that matter. I have ideas of my own.

Mr. HUNGERFORD: When you come to extremely high steam pressures you run into high expense in original cost, and it is not fully decided yet whether that additional cost is justified or not. The prevailing practice is to build locomotives carrying from 250 to 275 pounds per square inch, and that is recognized as good economic practice. It is possible we would be able to go farther, but the evidence is not yet conclusive.

Mr. DUFF: What is the condition of your equipment—cars and engines and all other equipment—as compared to what it was last year and the previous year? In other words, have you spent as much money in order to keep the equipment at the same standard as it was in previous years, and before the depression came?

Mr. HUNGERFORD: That all depends. We are not spending as much money. There is no occasion to spend as much money. We are not handling as much traffic.

Mr. DUFF: With regard to the upkeep of the equipment you have on hand, are you keeping that equipment up to the same standard as it was kept before the depression?

Mr. HUNGERFORD: So far as the individual unit is concerned, yes, we are doing just as good; but we are not repairing as many units of equipment because the traffic requirements are such that we do not need as many units.

Mr. DUFF: What becomes of the equipment that you are not using?

Mr. HUNGERFORD: We simply store it, and as soon as there is a traffic requirement we repair it.

Mr. DUFF: I notice that some of the equipment is out in the open. I suppose you call that storage?

Mr. HUNGERFORD: Yes.

Mr. DUFF: It looks to me as if it is not improving as far as I can see. It is certainly not appreciating in value.

Mr. HUNGERFORD: Probably not. All the cars are stored outside.

Mr. CANTLEY: It would require a big shed to hold them.

Mr. DUFF: I know it would. Does the upkeep of your roadbed compare favourably now with its condition before the depression?

Mr. HUNGERFORD: I do not know just how to answer that.

Hon. Mr. MANION: Just before you came Mr. Hungerford said he considered the upkeep of the road to be quite sufficient to maintain efficiency of all kinds.

Mr. DUFF: I heard that, doctor. Mr. Hungerford, are you buying as much ballast or ties or rails for your different lines as you were previously?

Mr. HUNGERFORD: No.

Mr. DUFF: Have you bought any?

Mr. HUNGERFORD: Oh, yes.

Mr. DUFF: What quantity of rails have you bought in the last two years?

Mr. HUNGERFORD: Well, we will have to prepare a statement on that. I do not remember the figures.

Mr. DUFF: Have you used all the rails that you have purchased?

Mr. HUNGERFORD: No.

Mr. DUFF: What became of them?

Mr. HUNGERFORD: We have them in stock at certain places.

Mr. DUFF: Why did you buy them before they were required?

Mr. HUNGERFORD: Well, we were following a program of laying heavier rail on transcontinental mainlines in order to secure lighter rail for the completion of new lines. When the new branch line program was suspended there was no occasion to do that. The only way we could get rail for new branches was to take the old rail out of the main line and we were pursuing that policy for several years.

Mr. DUFF: I suppose you would not have the dates when you purchased those rails and the prices paid for them?

Mr. HUNGERFORD: No. I can get all that if you want it.

Mr. DUFF: Would you be good enough to get that?

The CHAIRMAN: We will ask for that.

Hon. Mr. MANION: There were two purchases of rails made. The orders in council have already been tabled in the House and they are on record. There were two purchases of rails, and I presume these are the ones that Mr. Hungerford refers to. They were purchased at the request of the government and the government itself is carrying them until they are utilized by the railway. One purchase was made down in the Maritimes and the other was made at the Algoma plant; but the Orders in Council for these have been tabled. The point I wish to make is that while the railway purchased it in a sense, the purchases are being carried financially by the government as an unemployment relief measure, and they are being carried financially by the government until

the railway takes them and they absorb them into their costs when they take possession. Am I not right?

Mr. HUNGERFORD: That is substantially so.

Mr. DUFF: That is the reason why I am asking the question. I have seen that Order in Council and there was some discussion in the House about it, and I would like to know Mr. Hungerford's views as to why it was necessary to purchase millions of dollars worth of rails which the railway did not need. I would like a statement from him as to the quantities and dates and the reason for taking them over.

Mr. CANTLEY: The reason was to relieve unemployment at the time.

Hon. Mr. MANION: They have not taken them over. There are a lot of them not taken over. They are in storage with the companies that made them until they are taken over. That is my recollection of the matter. Until they are taken over the government is carrying them.

Mr. GRAY: What is the percentage of the Algoma purchases? I know something of that, because the Prime Minister referred to it in regard to Mr. Duff's statement in the House. There have been some rails laid from London west towards Strathroy. I do not know how far west. The Prime Minister made the statement that that was part of the Algoma Steel program. Now, how much of the order that was given to the Algoma Steel company has been used? I think that is what Mr. Duff is trying to get at. Now, the government are carrying that huge order, as the Minister said, and the interest upon this order. How much of it has been used? That is the information we could not get from the House.

Mr. HUNGERFORD: I think you had better let us prepare a statement. It is impossible to say from memory.

Mr. DUFF: Yes, that is all right. You say that some of the rails which you had on hand were moved around from one section to another. Would you mind telling me what proportion of the rails that were purchased and paid for belong to the Sunnybrae-Guysboro railway?

Mr. HUNGERFORD: I do not think there were any rails purchased for that railway at all.

Mr. DUFF: I understood there were.

Mr. HACKETT: They went into the museum.

Mr. DUFF: The line has gone into the museum, but the rails were all right. Would you mind giving us your views in regard to the abandonment of branch lines or different main lines which have been abandoned or are in contemplation of being abandoned? What is your policy in that regard?

Mr. HUNGERFORD: That is not fully decided on yet.

Mr. DUFF: Have you made any abandonments in the road during the last twelve months?

Mr. HUNGERFORD: Not exactly.

Mr. DUFF: You have not abandoned any?

Mr. HUNGERFORD: No.

Mr. DUFF: Have you any branch line policy laid down so far?

Mr. HUNGERFORD: In what respect?

Mr. DUFF: In respect of branch line railways.

Mr. HUNGERFORD: In regard to the abandonment of branch lines?

Mr. DUFF: No, with regard to building or finishing branch lines which were started, or building new branch lines?

Mr. HUNGERFORD: We are doing nothing along that line at all.

Mr. DUFF: You are neither completing branch lines started or building new branch lines?

Mr. HUNGERFORD: No.

Mr. DUFF: Another question, Mr. Hungerford: Does the upkeep of your road bed compare favourably now with what it was before the depression?

Mr. HUNGERFORD: I do not know just how to indicate that.

Hon. Mr. MANION: Just before you came in, Mr. Hungerford spoke about the condition of the road bed the other day, and you said in effect that the upkeep of the road bed was quite sufficient to keep it efficient.

Mr. DUFF: I know, I heard that. Are you buying as much ballast, ties and rails for the different lines as you were previously.

Mr. HUNGERFORD: No.

Mr. DUFF: You are not.

Mr. HUNGERFORD: No.

Mr. DUFF: Have you bought any?

Mr. HUNGERFORD: Yes.

Mr. DUFF: What quantity of rails have been bought in the last two years?

Mr. HUNGERFORD: I would have to prepare a statement on that.

Mr. DUFF: I would ask you to prepare such a statement. Have you used all the rails you purchased?

Mr. HUNGERFORD: No.

Mr. DUFF: What has become of them?

Mr. HUNGERFORD: We have them in stock.

Mr. DUFF: Why did you buy them before they were required?

Mr. HUNGERFORD: Well, we were following a program of laying heavier rail on the transcontinental line using the lighter rail taken from that on the new branch lines. When building of new branch lines was held up our program broke down in connection with that.

Mr. DUFF: Just on that point: in connection with the abandonment of branch lines, are you working in co-operation with the Canadian Pacific with regard to that particular policy.

Mr. HUNGERFORD: So far as the functional grouping of lines is concerned, we are working in collaboration with the Canadian Pacific; that is, where we have a line that runs parallel to a C.P.R. line, and where we have substantially the same equipment, we are discussing with the Canadian Pacific arrangements for the abandonment of such lines.

Mr. DUFF: You are doing that on a fifty fifty basis? You are not taking more than the C.P.R., and the C.P.R. are not taking more than you are?

Mr. HUNGERFORD: As nearly as it is possible for us to do it.

Mr. DUFF: You are not giving away any of the rights of the Canadian National in that connection?

Mr. HUNGERFORDS Oh no.

Mr. GEARY: I would suggest, Mr. Chairman, that we might do the same as we have done before; take up these different sections, then we would reach our question with respect to capital expenditures, maintenance of way, etc., as we come to them. It seems to me that would probably clear it up as we go along, as we take the different items of the different accounts. I do not know whether you want the balance sheet, the profit and loss statement, or the income statement; possibly we might go to maintenance of way on page 16.

The CHAIRMAN: I want to be pretty free and allow any member to ask any question, even if he does not keep it quite in order.

Mr. GEARY: Quite so.

The CHAIRMAN: I do not want to have any member tied down so that if something is overlooked, he could not get the information he wants. It is absolutely immaterial to me how you approach the situation. I am willing to let the committee have its own way as far as discussing anything is concerned.

Mr. HANBURY: I would suggest as general procedure we might consider the reports of the trustees as contained in their annual report, starting on page 4; that will probably bring out questions as we proceed.

The CHAIRMAN: Very well, we will start with page 4. Are there any questions arising from that section? If not, we will move on to page 5; that takes in revenues and operating expenses. Then on to page 6.

Mr. FRASER: On page 4 the last paragraph on the page refers to a question I asked yesterday, or the last day on which the committee sat: in addition to staff reduction, further salary revisions and deduction from basic rates of pay were put into effect in 1933. These additional pay reductions for the present average number of employees are at the rate of \$5,200,000 per year. However, that refers to employees, it does not apply to officials. I was going to ask Mr. Fullerton now whether or not he has the return I asked for.

Hon. Mr. FULLERTON: The question asked was: A comparative statement of the salaries and expenses of executive officers at the present time as compared with one made at the session of 1931. The answer to that is: The list of executive officers in 1931 receiving \$15,000 or more numbered 36, apart from the President and Chairman, with total compensation of \$677,500; and the personal expenses in 1930 amounted to \$51,461.78. At the present time six officers, including the president, receive \$15,000 or more with a total yearly compensation of \$117,800. Their personal expenses in 1933 amounted to \$5,852.24.

The CHAIRMAN: Does that information, which has been given by the Chairman of the Board, answer your question.

Mr. FRASER: Well yes, it is hardly what I expected to get. My recollection is that during the three years I have been checking this up, there were included in that group some 93 officials; now you say there are only 36, or 38 there.

Hon. Mr. MANION: The 36 referred to there are those who received \$15,000 or over.

Mr. FRASER: What I had in mind all the time, although I have not checked it up, was that there were 93 officials.

Hon. Mr. MANION: That was for \$10,000 and over.

Mr. FRASER: All right, I am satisfied.

Hon. Mr. MANION: Maybe, in that regard, since Mr. Fraser has brought up this point, there is one thing I would like to have emphasized as I am not sure that the committee got it as clearly, possibly, as they should have. I think it is a very important point, one that should be known particularly to the men on the road; because I know that as Minister I continually receive wicked complaints from the men themselves, claiming that the high-up officers are being protected by the management themselves, not by me and that they have substantial benefits. These figures which have been given are rather interesting. I would like to repeat them, if I may. The list of executive officers in 1931 receiving \$15,000 or more number 36, and now that is cut down to six from 36 receiving \$15,000 or over, the salaries were \$677,500 at that time and it is now \$117,800; and expenses have been cut down from over \$51,000 to \$5,800. I emphasize that because so many men on the road are complaining bitterly that they are not getting a fair deal—that the officers of the road are getting all the cream, so to speak. I would be glad to have Mr. Fullerton give us the figures with respect to those receiving \$10,000 or over, in the same way as he has given us these.

Mr. FRASER: What I had in mind when I asked the question was the figure of 93.

Hon. Mr. MANION: That was, over \$10,000.

The CHAIRMAN: That is certainly a very remarkable change, and I think those figures should be elaborated somewhat, so as to show the whole picture.

Mr. DUFF: Are these officials at the head office in Montreal, or are they scattered all over the country?

The CHAIRMAN: These are all the employees, I understand.

Mr. GRAY: Did I hear you correctly; that these are the officials receiving over \$15,000 a year?

Mr. HANBURY: I do not think this is anything to be proud of, I certainly think we should have a class of men in charge of operations who would be entitled to more money than what is being paid evidently.

The CHAIRMAN: You certainly can't have it both ways, that is one thing sure; you have complaints on the one hand of extravagances, and on the other we hear complaints about these economies.

Mr. HANBURY: I did not complain about extravagances.

The CHAIRMAN: No, no; you did not, I am not speaking personally.

Mr. GRAY: This leads me back to something I said last week, and which I felt was not considered with the weight to which it was entitled—back again on page 4—and that is with respect to the saving and operating expenses on this road in 1933 as compared with 1932. I made the statement then that it was due largely to the displacement of labour, and the report of the board bears me out. At that time I quoted certain figures from the "Financial Post," I have now analysed the report and I find that I am substantially correct in connection with that. I will call the attention of the committee to page 4, railway operating expenses; there we have the figures on the working results, showing the railway operating expenses decreased by some \$12,000,000. That was taken out of the employees. In 1932 we have some 76,000 employees, in 1933 some 70,000 employees; employees' compensation in 1932 amounted to some \$106,000,000, and in 1933 it amounted to some \$95,000,000. Then we come over here to page 5—and we find that correctly stated, there is nothing misleading about the report in any shape or form—we find that the operating expenses reduction of some \$12,000,000 odd is due to labour displacement of some 81 per cent.

Mr. McGIBBON: It could not be anything else.

Mr. GRAY: Of course it could not be anything else; but what makes me just a little annoyed is that there are statements going out on this road—and I champion this road as against any man in the country—

Mr. McGIBBON: Don't champion it unwisely.

Mr. GRAY: —That we are saving so much money; and the minister has been one of the foremost from the floor of the house in making statements as to what we are doing; but we are doing it at the expense of labour. We are displacing labour, we have displaced 6,000 odd railway employees; what are you doing with them; you are taking them perhaps off the hands of the railway—although I might have something to say with respect to that condition, where is the relief there? They have been placed upon the railways as a burden during the past year. If we were not afraid of the business situation they would have been displaced long ago, and you have compelled the railways to keep them employed as a certain measure of relief. I haven't any great fault to find with that, provided that we as a country absorb the burden; that burden should not have been placed upon the Canadian National Railways. Now, in spite of that situation, we do not see that in this picture; it is there and now we know it and

the country should know it, that the Canadian National Railways in the first instance should not have been burdened with extra employees, that if they were a straight business firm and not a government-owned railway they would not have been employed; that is a burden that has been placed upon their shoulders which should have been absorbed by the people of Canada, just the same as any other unemployment measure. That is point 1.

Then point No. 2: in spite of that you have still reduced it by some 6,000 odd; and that is a saving that you create by the displacement of labour in this country. And then we go out and say, look at what we have saved. You have simply taken it out of wages. Let us meet the situation as we see it, and not try to hide it.

Hon. Dr. MANION: Since Mr. Gray has referred to my statements about special savings, I never talked about labour savings, I talked about other substantial economies. With respect to labour savings I have only this to say in reply: it is obvious that if you cut down your business, as it is shown here from \$161,000,000 in 1932 to \$148,000,000 in 1933, you naturally displace labour; that is obvious, isn't it.

Mr. GRAY: Certainly.

Hon. Dr. MANION: In other words, the railway would be ruined if they hired the same number of men to do \$13,000,000 less business. Nobody questions that. There must be a displacement of labour if the business is to go on. As to the point raised by my friend Mr. Gray, I have no objection to that statement either; except where he brings me into it. The savings to which I have been making reference from time to time have not been particularly labour saving. I will show the committee now the actual figures with respect to the railway, and they will show that I am right. In 1931 the gross operating revenues of the railway were \$200,000,000, and the net was \$1,000,000. In 1934, get that, the gross operating revenue was \$148,000,000, the net \$6,000,000. In 1933 the gross operating revenues were \$148,000,000 odd, and that figure is exactly \$52,000,000 less than in 1931—well now, we come to what Mr. Gray says; if the same amount of labour had been retained, net revenue of \$6,000,000 last year, there would have been a deficit of anywhere from fifteen to sixteen or twenty million in that year.

Mr. GRAY: Where do you find those, sir.

Hon. Mr. MANION: In the figures of the railway.

Mr. GRAY: I want to see it here; I would like to have it.

Hon. Mr. MANION: You could put this down, because I am giving you the facts.

Mr. GRAY: Fortunately it is being reported.

Hon. Mr. MANION: I am giving facts; my honourable friend can get them any time he likes. I say the gross operating revenue of the railway in 1931 was \$200,000,000 and the net was \$1,000,000; and last year the gross was \$52,000,000 loss, and the net \$6,000,000; and that surely shows the special economies that were made.

Mr. GRAY: Will the minister—I know he is fair—look at the bottom of page 5; that there was in round figures a reduction in operating expenses of \$12,000,000 or 7.99 per cent.

Hon. Mr. MANION: And let me just say in regard to that, that the economies that were made last year by the railway were largely labour.

Mr. GRAY: Of course they were.

Hon. Mr. MANION: But, just a minute my friend; you are dealing with one year, we have been handling this as far as the government is concerned for four years; all the great economies were made two years ago.

Mr. GRAY: All right.

Hon. Mr. MANION: The great economy in officials, particulars of which Mr. Fullerton gave us in his statement this morning—a reduction in those receiving \$15,000 a year or more, from 36 in 1931 to 6 in 1933. I do not want to go over that whole thing again. Every one of them are facts. I can prove my statements. We have had a saving in connection with high-up officers of over a million dollars a year. There has been a saving in advertising—I have forgotten the figure just at the moment. There has been a saving in radio, which has been cut out altogether. There has been a saving in all sorts of things of that kind. I make the statement now which I made in the House, that this railway is doing better by \$15,000,000 to \$20,000,000 a year, so far as operating costs are concerned by reason of economies of that kind, and still giving the same service.

Mr. DUFF: Is not that partly due to the fact of reduced revenue?

Hon. Mr. MANION: Not these special economies.

Mr. GRAY: I intend to hold the Minister to exactly where he has held me; and ask the Chairman to hold us as he has, and I think rightly so, to the report before us. I am dealing with the report of this committee, and I am dealing with that statement as part of the 1932 economy. The Minister is getting away from that altogether in some wide statement in the very able manner which he has, and using these broad remarks; and so I am going to hold him to the statement that we have before us.

Hon. Mr. MANION: Yes, but you better stick to the statement you have before you yourself, that is the point.

Mr. GRAY: I had.

Hon. Mr. MANION: No, you have not; you are dealing with the statement I made in the House of Commons about the savings on this railway in the last four years.

Mr. GRAY: Very well, I would be perfectly willing to withdraw any remark I made with respect to the words the Minister said in the House, and still stick to this if he will. We will then both be on common ground, he will admit that the savings of last year is due to an 81 per cent displacement of labour, as has just been shown.

Hon. Mr. MANION: Then don't criticize my statement with regard to the past four years.

Mr. GRAY: All right then, we are both equal.

Mr. McGIBBON: I wish to explain to Mr. Gray, I thought that he was really interested in economies, and trying to bring this road out of this.

Mr. GRAY: I am, but not by making such a displacement at one point and not doing it at another.

Hon. Mr. MANION: We are criticized though when we get them.

The CHAIRMAN: If labour is not earning money why have you got to employ it, that is the point.

Mr. McGIBBON: Let me remind you of this fact; there are two great factors in running a railway so far as getting operating profits are concerned. One is the interest on your debt, the other is labour, including operating expenses. Now, if the debt of this railway had not been boosted about a billion dollars from 1923 to 1930, the management would have had more labour, they would not have been so hard-pressed for money, and they would not have had to dismiss so many men. The crux of this thing goes back to the financial difficulties and that is something that Mr. Gray has overlooked apparently. The higher you lift up your operating cost and interest, when you come to a time when economy has got to be exercised, there is only one place you can exercise

it surely, and that is labour. And that is one of the great things that this management, to my mind, has been faced with; but that goes back, and don't forget it, beyond the inauguration of this company.

Hon. Mr. EULER: I understood you to say that since 1923—possibly I misunderstood you, but I just wanted to get it cleared up—the liabilities of the railway, the deficit, increased by a billion dollars.

Mr. MCGIBBON: I said the debt was increased, you will find it in the report, \$912,000,000—I said, speaking roughly, a billion.

Mr. FRASER: I think the answer to Mr. Gray's criticism is contained on page 2 of the statement that was made yesterday by the Chairman of the Commission; at least it appears so to me. Here is what is said in the report: "Unfortunately economies cannot be made without the displacement of labour. Out of every dollar spent in operating the railways, 63 cents is a direct payroll expense." I fail to understand how you are going to reduce the cost of operating the railway, without reducing the expense of labour when labour takes up 63 per cent of the total cost of running a railway.

Mr. GRAY: Let us grant that, let us agree on what Mr. Fraser has said. I doubt that that is the only way in which economies can be made, or in which we can save in this country; but I am not going to get into a political argument as to the whys and wherefores; but if that is the only way in which we can economize in this country, by the displacement of labour, taking it out of the railway and putting it back on someone else, then we are in a very bad state in this country.

Mr. FRASER: I do not think that is fair criticism.

Hon. Mr. MANION: Should the railways keep the same number of men when they are doing \$13,000,000 less business?

Mr. GRAY: I do not suggest that.

Hon. Mr. MANION: I do not see the point you make at all.

Mr. GRAY: There is the point to my argument, however.

Hon. Mr. MANION: I do not get it.

The CHAIRMAN: A lawyer might find it easy to do that, a business man could not.

Mr. GRAY: That might be perfectly true, Mr. Chaplin; but I cannot say that as a result of the situation we find ourselves in, it is a thing that we should be particularly proud of.

The CHAIRMAN: I do not think any of us are proud of it.

Mr. GRAY: The fact that we have to say that our economies are affected by the displacement of labour.

Hon. Mr. MANION: That is only last year, Mr. Gray; it was not true of previous years. Great economies, necessary economies, were made by the displacement of high-up officials that were not necessary. If you will allow me to I would like to ask Mr. Hungerford: Mr. Hanbury suggested that it was nothing to be proud of that there were so few officials now getting \$15,000 a year or over; might I ask you, Mr. Hungerford, as probably the oldest railway man in the room, have you sufficient highly paid officials on your staff to operate the railway efficiently at the present time.

Mr. HUNGERFORD: I think our official situation is sufficient for the present volume of traffic.

Mr. HANBURY: I would like to ask Mr. Hungerford whether they are being paid on a basis comparable with other Class A railroads; and whether you have an equal number of higher paid officials to that found on other Class A roads.

Mr. HUNGERFORD: It is very difficult to make a comparison of that kind; conditions vary widely and it is exceedingly difficult to make such a comparison.

Mr. HANBURY: Perhaps, Mr. Hungerford, you can give us the relationship of the salaries of your higher-paid officials to your gross revenue; and perhaps you can show how that compares on that basis with other Class A roads.

Hon. Mr. MANION: Why not compare it with the net revenue.

Mr. HANBURY: I said the gross revenue.

Mr. HUNGERFORD: Our organization at it stands is just about the type of organization usual to large railway systems. I do not think that there is any material difference, quite apart from salaries, which we do not know. As far as official positions are concerned, they correspond very closely with the organization of other railroads.

Hon. Mr. EULER: Just to clear up a point I want to refer back again to a statement made by Dr. McGibbon a few minutes ago, that the debt of the railways has been increased within the last ten years by (in round numbers) a billion dollars; I would like to ask how much of that is by way of capital expenditure.

Mr. MCGIBBON: About \$450,000,000.

Hon. Mr. EULER: Then the other sum would be around \$600,000,000.

Mr. MCGIBBON: Quote me correctly, I said \$912,000,000.

Hon. Mr. EULER: I am speaking from memory.

Mr. MCGIBBON: I said \$912,000,000; half capital and half deficit.

Hon. Mr. EULER: Is that correct, I would like to ask that?

Mr. MCGIBBON: Ask Mr. Fullerton.

Hon. Mr. EULER: I am asking.

Mr. FULLERTON: In general terms, I would say yes.

Mr. EULER: Then in that deficit you are including all the interest which is on the old accrued deficits and is already on record in the consolidated fund of the Dominion of Canada, is it not?

Mr. MCGIBBON: In operating debts.

Mr. EULER: Because, I do not know where I saw it, whether it was in this report or not, I am trying to find out, but memory tells me that a statement appeared somewhere in this document that in the last ten years the actual deficit is something like \$25,000,000; am I right in that? I understand that the actual deficit, the annual deficit for each of the last ten years is something like \$25,000,000.

Hon. Mr. MANION: That is only to clear that up.

Mr. EULER: That is all I am trying to do.

Mr. HUNGERFORD: That is shown on page 18; it shows that \$25,636,754. I just wish to point out that that does not include any interest owing to the government.

Mr. EULER: I am just trying to differentiate there.

Mr. HUNGERFORD: We don't want to get a mis-statement of the facts.

Mr. EULER: Exactly so; my contention is this, so far as the railway itself is concerned on account of the last ten years the increase to the deficit is about \$250,000,000 on the basis of \$25,000,000 a year; and then capital expenditures are in the neighbourhood of \$400,000,000 or \$500,000,000; is that correct—that falls about \$300,000,000 short of that billion the Doctor was talking about.

Mr. MCGIBBON: That only falls \$200,000,000 short of the \$900,000,000 odd that I said.

Mr. HANBURY: I would like to refer again to the salaries paid to the higher officials of the railways, and I would like to ask Mr. Fullerton the amount paid.

Hon. Mr. FULLERTON: At the present time, and this is the evidence which I gave, the total amount received by officers being paid \$15,000 a year or more, their total yearly compensation, amounts to \$117,800; and their travelling expenses for 1933 amounted to \$5,852.24.

Mr. HANBURY: I understand, Mr. Chairman, that on practically every Class A railroad in America the President at least receives from \$75,000 to \$125,000 a year.

The CHAIRMAN: That was three years ago.

Mr. HANBURY: All right.

Hon. Mr. MANION: I have right here a statement from the Wall Street Journal.

Mr. HANBURY: I am making that statement, practically every President of a Class A railroad received from \$75,000 to \$125,000 a year. Here we have six officials guiding this Canadian National Railways receiving less than the President of a Class A railroad receives.

The CHAIRMAN: Yes, and about half of what our old President received.

Mr. HANBURY: There is nothing wrong with what our old president received, I do not think he was overpaid; however, that is a matter of opinion. I would request from the officials of the railways that they give us a comparison with other Class A railroads in America; and I would like to be provided with a statement showing a comparison with these Class A roads.

Hon. Mr. FULLERTON: I doubt very much if we can get it.

Mr. HANBURY: We have got such information in the past.

Hon. Mr. MANION: Would you permit me to give you two; I have here a copy of a Wall Street Journal—

Mr. HANBURY: Just a minute, I quite realize—

Hon. Mr. MANION: All right, I will give it afterwards.

Mr. HANBURY: I quite realize, and I think the members of this committee will too, that probably that figure of \$117,000 could be further cut down; because there are not very many jobs going around to-day and a lot of these officials would take considerably less rather than starve—they would probably take another 50 per cent reduction in salary. However, that is not the point I want to make. We have a business here doing a turnover of \$142,000,000 last year, and we expect a 20 to 25 per cent increase this year, and yet we are giving less than 1 per cent in salaries to our higher officials.

Hon. Mr. MANION: No, no; these are merely the higher officials receiving over \$15,000, a year.

Mr. HANBURY: We are giving less than one per cent of our total revenues to our executives.

Hon. Mr. MANION: Oh no, there are a lot of executives getting less than \$15,000 a year.

Mr. HANBURY: That is the impression being given to this committee.

Hon. Mr. MANION: I don't want that to be given, I want that to be corrected.

Mr. HANBURY: I asked for that information; I think we should compare the situation we have on this railway with that which obtains on other roads of the same class.

Hon. Mr. MANION: I have here information as to what officers of other roads are receiving. It is taken from the Wall street journal, so I presume it is correct, it applies to two railroads in the United States. The business of these roads, I think, compares with the Canadian National. This shows that on the Norfolk Western Railway the President, Mr. A. C. Needles receives

\$60,000; and here is the Boston & Maine Railroad, and I see that Mr. E. S. French, Vice-President, receives \$40,000.

Mr. HANBURY: Perhaps the Minister will tell us the amount of line that these railways operate.

Hon. Mr. MANION: It doesn't matter about the mileage, it is the economics which matter. May I say a word in regard to that. I do not agree with Mr. Hanbury's idea of mileage. If a railway like the Canadian National is losing money to the extent that it is costing the people of Canada something like \$60,000,000 a year, as we have been doing the last few years—

Mr. GRAY: Adding to the public debt.

Hon. Mr. MANION: It cost us in 1931 \$112,000,000.

Hon. Mr. EULER: If you wiped the railways right off the face of the earth you would still face a heavy deficit—

An Hon. MEMBER: There would still be a charge against the old dead horse.

Hon. Mr. MANION: My attitude is—and I am taking a different one from Mr. Hanbury because I have a right to my own opinion—when a railway is costing the people of Canada in interest alone \$56,000,000 a year which is being paid by the people, even if they are getting lower salaries—and I do not question that some of them are worth more than they are getting—until the railway has been put on something like a paying basis they should get lower salaries. Usually the salaries of a business corporation are in proportion to the net earnings of that business corporation.

Mr. HANBURY: Not at all. I suggest to Mr. Manion that whether the railway is paying or whether it is not paying—we are giving the information here that it has not been paying and never has been paying—these men are receiving salaries not on the basis of what the railway company is earning but on the basis of what their services are worth in competition with other class A railways.

Hon. Mr. MANION: You can take that attitude.

The CHAIRMAN: This committee discovered at the last investigation that there were certain higher up officials on the railroad that were getting \$60,000 a year and doing nothing for it.

Mr. GEARY: Suppose Mr. Hanbury's point is right; suppose that the higher paid officials are not getting enough money. That is what Mr. Hanbury alleges.

Mr. HANBURY: Yes.

Hon. Mr. MANION: That is his point.

Mr. GRAY: What is your point, Mr. Geary?

Mr. GEARY: I am trying to clear this up. Suppose the higher paid officials are not getting enough money?

Mr. HANBURY: I say that the statement that is given to us about the salaries being paid is nothing to be proud of.

Hon. Mr. MANION: That is a matter of opinion. I think it is something to be proud of.

Mr. MACMILLAN: I think Judge Fullerton was making a statement of the expenses of these higher officials. Might I have that repeated.

Hon. Mr. FULLERTON: The expenses—the personal expenses—previously were \$51,461 and they were cut down to \$5,852.

Mr. MACMILLAN: Do I understand that the total personal expenses amount to only \$5,000?

Hon. Mr. FULLERTON: For those six men.

Mr. MACMILLAN: In the light of the remarks of my friend Mr. Hanbury that should be increased. It used to run to \$800,000.

The CHAIRMAN: We have the case of one man on that road who was getting a salary of over \$60,000 a year and his expenses were pretty nearly half as much as that.

Mr. DUFF: Mr. Chairman, I do not want to interrupt this conversation, but it seems to me we are holding a poor post mortem. We have held it for the last five or six years. Now, corpses usually smell rather bad. I suggest that should go on with the matter we are here for and consider the annual report for last year.

The CHAIRMAN: As far as I am concerned, Mr. Duff, I am not anxious to delay the committee.

Mr. DUFF: That is the idea.

Hon. Mr. MANION: As far as I am concerned, I will be delighted to stick to the facts of this year; but when I am attacked, Mr. Duff, as I have been attacked in regard to some of these matters, I must reply, and I intend to.

Mr. DUFF: Certainly. I would do it myself.

Mr. GRAY: We would think there was something wrong with you if you didn't do it.

Sir EUGENE Fiset: I would like to know exactly the operating expenses between Matapedia and Campbellton since the terminal has been abandoned. I would like to know the expenses per year since 1930, and also what it is costing the railway at the present time to transfer the mail from those two points. I will be satisfied with a statement later on.

The CHAIRMAN: We will get the information for you, General.

Mr. CANTLEY: I would like to ask a question of the chairman of the Board or of Mr. Hungerford. How many supervising officers have you in the Maritime provinces at the present time?

Mr. HUNGERFORD: The classification of supervisory officers is a rather indefinite thing. I do not know how far down the line you want to go. Is a roadmaster a supervisory officer, or not?

Mr. CANTLEY: No.

Mr. HUNGERFORD: Where would you draw the line?

Mr. CANTLEY: I am referring to travelling supervising officers, and I think you have twice as many in the Maritime provinces as you need. Now, there is another point in connection with that. There have been some dismissals of policemen in the Maritime provinces and following their dismissal there has been a series of robberies—breaking into railway stations and breaking into cars. Now, I would suggest that you drop half your travelling supervisors and put on more policemen.

Mr. HUNGERFORD: I can only say what I have said before, that our organization is very very similar to that of other railways of comparative size and condition, and we think that the staff of officers we have now are fine for the purpose.

Mr. DUFF: Have you reduced the number of officers in the Maritime provinces in the last year?

Mr. HUNGERFORD: There have been some reductions in the last three or four years, yes.

Mr. CANTLEY: I would like you to give the matter some further consideration. I think you will ultimately arrive at pretty nearly the point I have arrived at. That is all I have to say in regard to that. By the way, would you be good enough to give me at some time within a few days a memorandum showing how many disabled cars you have on the system and what types they are, and the same with regard to locomotives that are out of service?

Mr. HUNGERFORD: Yes.

Mr. McGIBBON: Mr. Hungerford, probably this question is induced by curiosity on my part. Can you give us any approximate knowledge of what this system is worth on present-day valuation.

Mr. GEARY: On what basis—reproduction or cost?

Mr. HUNGERFORD: I think the best answer to that is this, that on the action of the Interstate Commerce Commission the railroads of the United States have been trying to ascertain what they were worth for many years, and they have not arrived at any conclusion yet. It all depends on the basis. It may be an earning basis; it may be an investment basis, or it may be several different bases.

Mr. McGIBBON: What I had in mind was that I think Mr. Nicholson, the member for Algoma, asked the late Sir Henry Thornton, one day in this committee if a valuation of \$60,000 a mile, as a going concern, would be fair, and he said he thought it would. That figures at approximately the debt we owe to the government.

Mr. NICHOLSON: \$65,000.

Mr. McGIBBON: That figures at approximately what we owe the public. Would you agree with that figure? I do not want you to commit yourself if you do not feel like it.

Mr. GEARY: I would like to ask Mr. Hungerford if any concern, valued as a going concern, which pays no return can be worth \$60,000 a mile.

Mr. McGIBBON: We have a future, surely.

Mr. GEARY: Taking it as a straight business going concern and valuing it on returns, is it worth \$60,000 a mile.

Mr. McGIBBON: Would you take a manufacturing plant that is not earning anything? As a going concern, it may not be worth anything.

Hon. Mr. EULER: It may be worth something in a year or so.

Mr. GEARY: Oh, yes. I do not believe that it is valued as a going concern at all.

Sir EUGENE Fiset: As a going concern it is worth a dollar.

Mr. GEARY: One of the Grand Trunk railways was valued on reproduction cost new less depreciation at nothing, was it not?

Mr. HUNGERFORD: I do not know what you are referring to.

Mr. GEARY: On the arbitration.

Mr. GRAY: That is what the shareholders got anyway.

Hon. Mr. EULER: We once paid \$10,000,000 for something that a commission said was worth nothing.

Hon. Mr. MANION: And the British people think we cheated them out of the whole sum.

The CHAIRMAN: We are not making much progress in respect to this statement. I would like to get along a little faster.

Mr. GEARY: We are at page 4.

Hon. Mr. EULER: May I ask this: there is a sort of summary statement signed by Mr. Hungerford at page 7. Would it be proper for us to discuss under the various heads of items the details, or should we wait until we come to them in detail in the actual report—the balance sheet—later on?

The CHAIRMAN: We would probably save time in getting to the summary. It makes no difference to me. We have been rather desultory.

Hon. Mr. EULER: For instance, if you are going to discuss this I was going to ask a question with regard to railway operations.

Mr. McGIBBON: Before you get away from that. I have been trying three or four times to get this question out. On page 6 we have this statement: "Net

additions and betterments for 1933 totalled \$952,995.91." Is that the total money spent for what you would call in lieu of depreciation?

Mr. HUNGERFORD: No, it is not the total amount.

Mr. McGIBBON: What was the total amount?

Mr. FAIRWEATHER: The retails are shown on page 17: \$2,950,000 odd spent on road, and there was a net credit \$2,625,000 on equipment which was made up of the purchases—a difference of \$2,100,000 and a write-off due to retirements of \$4,000,000.

Mr. McGIBBON: Making a total of how much?

Mr. FAIRWEATHER: Making a total of the figure indicated. There has been approximately \$3,000,000 gross capital on road work, and we spent about \$2,000,000 on new equipment or improvement to equipment, and we wrote off on capital on equipment account \$4,700,000 to retire equipment.

Mr. McGIBBON: I was trying to get the approximate amount that is going back into the road in place of depreciation.

Mr. FAIRWEATHER: In effect, that statement means we have increased our net capital investment in road and equipment by \$900,000 in the year.

Mr. FRASER: I notice in that same statement that was referred to "Montreal Terminal Development, chapter 12-29, \$244,664.39" spent during the year. What is the situation with regard to the Montreal terminals at the present time? How much money has been expended on them in toto, and what was the necessity for spending the \$244,000 odd this year, and what is in contemplation for next year?

Mr. HUNGERFORD: The reason for the expenditure last year was the settlement of land payments. No work has been done.

Mr. FRASER: What is the total expenditure now on the terminals?

Hon. Mr. MANION: About \$16,000,000.

Mr. HUNGERFORD: \$16,381,000.

Mr. FRASER: Are there any contemplated expenditures during the current year?

Mr. HUNGERFORD: Yes, a small amount for additional land payments.

Sir EUGENE Fiset: On page 17 I see "Hotels, \$610,968.36." Can we get any explanation as to the details of this capital expenditure?

Hon. Mr. MANION: That refers to the Vancouver hotel.

Mr. GRAY: Hotels generally.

Mr. HUNGERFORD: Nearly all the expenditure was on the Vancouver hotel, and that was carried on contracts that had been previously let.

Hon. Mr. MANION: That is what I said a few moments ago.

Mr. FRASER: Is that contract completed?

Mr. HUNGERFORD: Not yet. Some contracts are approaching completion.

Mr. FRASER: Is it proposed to proceed with their completion during the year?

Mr. HUNGERFORD: A certain amount.

Hon. Mr. EULER: I do not wish to interrupt, but I believe if we examined the balance sheet and the other accounts item by item we would make more progress.

Mr. GEARY: Yes, that is right. We get all these things as we come to the separate accounts.

The CHAIRMAN: We are now discussing page 17.

Mr. HANBURY: Under capital expenditures I notice an item "500 70-ton Gondola cars" purchased during the past year. Was that new equipment

necessary for the railway at that particular time? I understand you have considerable equipment that was not being used previous to that purchase.

Mr. HUNGERFORD: No. These were coal cars, and we were short of coal cars at that particular time.

Mr. GRAY: When you were purchasing last year—during the year 1933?

Mr. HUNGERFORD: At times during the last year and a half or more we have been short of coal cars.

Mr. GEARY: Why do you call them by that name—gondola cars?

Mr. HUNGERFORD: That is the name—one of the railway terms that has existed for a long time.

Mr. GEARY: I was wondering if it had any relation to a man's name, or if it resembled the well known type?

Mr. HUNGERFORD: No, it is a flat car with sides around it.

Mr. GEARY: They are not run by a man with a pole, for example.

An hon. MEMBER: And a guitar.

Mr. HUNGERFORD: It has a slanting shape fore and aft.

Mr. GEARY: What about the consolidated balance sheet on page 8?

The CHAIRMAN: On page 8, consolidated balance sheet, there is the heading "Assets". Are there any questions to be asked about investments? Very well, we will pass on to the next item. "Current Assets". Are there any questions to be asked in that regard?

Hon. Mr. EULER: What is that item under assets "Miscellaneous Physical Property, \$60,000,000"; it does not mean investments in road and equipment, does it? Or does that mean buildings?

Mr. HUNGERFORD: Chiefly hotels.

Hon. Mr. EULER: Does it include boats? There would be the western boats.

Hon. Mr. MANION: I have the list here and I think it is correct. I have it from the railways: hotels, \$34,000,000; hotel "Scribe," France, \$2,600,000; Grand Trunk Western, \$2,100,000; C.N. Realties, \$4,000,000; Rail and River Coal Company, \$4,800,000; Prince Rupert Dry Dock, \$2,800,000; Canadian Northern Land Department, \$2,000,000; Grand Trunk Western Land Company, \$3,000,000.

The CHAIRMAN: Have we still an investment in the hotel "Scribe"? I thought that was all gone.

Hon. Mr. EULER: No, we own it.

Mr. GRAY: What is the position of the Central Vermont?

Mr. HUNGERFORD: It is owned entirely by the Canadian National.

Mr. GEARY: Does it differ from the Grand Trunk Western. The doctor has given Grand Trunk Western as a separate asset.

Hon. Mr. MANION: That was not the railway, but it was some other part. The Grand Trunk Western would be worth more than that. The land company is \$3,000,000, and this is marked here as \$2,000,000. There are two land companies.

Hon. Mr. EULER: What do you mean by "Investments in Affiliated Companies, \$31,000,000"?

Mr. GEARY: Is the Chicago and Grand Trunk your railroad?

Mr. HUNGERFORD: Yes.

Hon. Mr. FULLERTON: It is called the Grand Trunk Western. If you will turn to page 23.

Hon. Mr. EULER: "Other Deferred Assets, \$7,000,000." By the way, I did not get an answer to my question with regard to affiliated companies.

Hon. Mr. MANION: It is on page 23.

Mr. MACMILLAN: What is the set-up of the Canadian Airways Limited? Has the Canadian National a financial interest in the Canadian Airways Limited?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: \$250,000.

Mr. MCGIBBON: Has the C.P.R. an interest also?

Hon. Mr. MANION: Yes.

Mr. MCGIBBON: Who else is interested?

Hon. Mr. MANION: Largely James Richardson of Winnipeg. There are some other shareholders.

Mr. MCGIBBON: Who are on the board?

Hon. Mr. MANION: From the Canadian Pacific, Mr. Beatty, and from our own company, Mr. Hungerford, and Mr. Richardson is president, and I understand that Mr. Richardson supplied the bulk of the money that originally was put in.

Mr. GRAY: Were any capital expenditures made during 1933?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: Have we representation on the boards of all these companies?

Mr. HUNGERFORD: Yes.

Mr. GEARY: Are these investments in affiliated companies par value? With regard to the amount owned by the Canadian National system is that on a par basis. I refer to the second column on page 23, "Amount owned by Canadian National system" and "amount outstanding." Are these on a par value basis?

Mr. HUNGERFORD: Cost basis.

Mr. GEARY: You have your book value at \$6,000,000 and cost at \$5,000,000.

Mr. HUNGERFORD: What it cost the company to acquire them.

Hon. Mr. MANION: The amount outstanding has nothing to do with the Canadian National.

Mr. GEARY: I know that.

Mr. HUNGERFORD: Book value shows \$6,100,000.

Mr. GEARY: I suppose the difference between \$6,100,000 and \$5,200,000 would be the difference accounted for by certain shares not valued.

Hon. Mr. EULER: Is there any general rule as to which of the members of the board represent the Canadian National Railways on those boards?

Mr. HUNGERFORD: They are appointed by the trustees.

Hon. Mr. EULER: There is another question which I think is pertinent because of criticisms we have heard in previous years: is any salary paid to the Canadian National director on those boards?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: Mr. Chairman, I think there should be. It should not necessarily go to the individual, but if he is giving a service to this affiliated company why should not his service be paid for the same as the service of other directors, and the amount turned into the Canadian National Railways?

The CHAIRMAN: You are assuming that the other directors are paid?

Hon. Mr. EULER: Quite so.

The CHAIRMAN: If that is the case, then the director representing the Canadian National Railways should receive his share and it should belong to the Canadian National Railways.

Mr. HUNGERFORD: That is exactly what happens in these subsidiary companies in which the Canadian National owns all of the stock. No figures or salaries are paid, but officers serving as directors in the case of companies that are partly owned by the Canadian National and partly by other interests do receive directors fees and refund them to the company.

Mr. MACMILLAN: Has that always been the practice?

Mr. HUNGERFORD: Since 1932.

Mr. HANBURY: Has the capital of the Canadian Airways been kept intact or have they suffered?

Mr. HUNGERFORD: They have been having a hard time.

Mr. HANBURY: Are you putting in these assets at the par value?

Mr. HUNGERFORD: Book value.

Hon. Mr. EULER: Is the book value really representative of the actual value?

The CHAIRMAN: Are there any further questions on the consolidated balance sheet in the assets column.

Mr. MCGIBBON: What is this item "Public Markets Limited \$1,100,000"?

Mr. HUNGERFORD: Market Gardens Ltd.? That represents land purchased at Winnipeg for a yard extension. It was all under the name of that corporation so that it would not store up any trouble.

Mr. GEARY: You represent your investments in the Toronto terminals as about half that, and it is all financed by bond issue?

Mr. HUNGERFORD: Yes. The Canadian Pacific and the Canadian National each own half of the Toronto Terminals railway.

Mr. GEARY: And you have bonds for your half interest, and a slight charge for advances.

Mr. FRASER: What is the amount of the reduction of material and supplies on page 8? The amount is \$28,542,000. What is the reduction in that amount during the year?

Mr. HUNGERFORD: Are you comparing that with 1931 or 1932? \$6,000,000 less than 1932.

Mr. FRASER: Does that represent a reduction in inventory cost or reduction in material?

Mr. HUNGERFORD: Material and inventory cost.

Mr. GEARY: Are the details of that shown in this statement?

Mr. MCGIBBON: Will you excuse me, Mr. Chairman, I am sorry I have to go.

The CHAIRMAN: Certainly.

Mr. HANBURY: Have you passed page 6, Mr. Chairman?

The CHAIRMAN: No, we are still there.

Mr. HANBURY: I think there is, discount on funded debt—\$14,000,000, near the bottom of the page.

Hon. Mr. MANION: That is a loss in the sale of securities I am told.

Hon. Mr. EULER: That is under the heading of assets.

Mr. GEARY: That is what I see, it is involved.

Hon. Mr. EULER: A loss is not usually an asset.

Mr. FRASER: One would think it would be on the other side as a deficit.

Mr. GEARY: I think we had better get the accountant to explain that, it is rather involved.

Mr. HANBURY: We can get that information later.

Mr. GEARY: There is quite a difference between cash and a long-term debt.

Mr. HANBURY: : Under the liabilities I notice C.N.R. insurance reserve; does the Canadian National carry all of its own insurance?

Mr. LABELLE: Except for public liability and on steamers.

Mr. HANBURY: I see you have a total of over \$11,000,000, would not that be a very large reserve for insurance.

Mr. LABELLE: To illustrate, it is increasing every year.

Mr. HANBURY: My point is, is it necessary to continue to increase it this way; you have a sufficient reserve at the present time.

Mr. LABELLE: The more it increases the less insurance we take from outside companies.

Hon. Mr. EULER: You have there capital stocks owned by the Dominion Government, in that would you include the stock held by the National Railways in what was formerly called the Toronto Suburban—that is the old Guelph line.

Hon. Mr. MANION: May I say a word with respect to this question of insurance. I understand, I may be wrong but I am subject to correction, that now that you have that figure of nearly \$12,000,000 in your insurance reserve, that you do not pay so much out at the present time in the form of insurance premium.

Mr. HUNGERFORD: That is quite right, we have cancelled premiums in a great many cases.

Mr. GRAY: It will gradually take care of itself, is that the idea?

Mr. HUNGERFORD: It is doing that substantially.

SIR EUGENE Fiset: A few years ago we were told here in the committee that the limit of the amount that was supposed to be set aside would not exceed \$10,000,000. I say, now that we have reached \$11,000,000 is it intended to go further with that.

Mr. HUNGERFORD: I do not think I remember that statement, but we have cancelled premiums. As I said before, the income from the securities in the fund are rather more than carrying our losses. The day may come when we may have a serious loss, and we may need that money.

Mr. GRAY: It seems to have worked out pretty well, and I suppose it is really immaterial whether it be increased beyond \$11,000,000, or whether it is put into the operating accounts.

Mr. HUNGERFORD: It is not a burden on operating expenses, the income from these securities is taking care of the losses.

Mr. GRAY: You have that invested in good securities?

Mr. HUNGERFORD: Yes.

Mr. GEARY: Any credit on your income account year after year goes into your general account—what do you do with the surplus?

Mr. HUNGERFORD: That goes into the insurance fund.

Mr. GEARY: You don't put it into the general account; they buy more securities and that increases this account.

Mr. MORROW: It increases each year.

The CHAIRMAN: Are there any more questions to be asked on this page?

Hon. Mr. EULER: I see a profit and loss balance deficit of \$748,000,000; that is the total accrued deficit since the beginning, isn't it; and it includes the item I was referring to before, which is really charged in the consolidated debt of the Dominion of Canada.

Hon. Mr. MANION: It does not include the last two years, Mr. Euler. Might I just say one word to get the record clear—I think I am right, I am

subject to correction if I am wrong, but I think I am right about it—we did charge the interest on the books.

Mr. HANBURY: Which books?

Hon. Mr. MANION: The railway books, in regard to the interest on cash advanced, \$661,000,000; but there is no interest charge, if you will notice, on the item below that—Dominion of Canada expenditures for Canadian Government railways, \$387,000,000; there has never been any interest charged on that; although that was, as you say, a charge on the consolidated revenue. The only item on which they charge interest on their books is the cash advances.

Mr. HANBURY: You say interest was charged; didn't you mean credited in the books of the railway company—wouldn't they credit the Federal Government with that?

Hon. Mr. MANION: It is shown here as a liability; it is charged by the railway on their books as a liability.

Mr. HANBURY: They credit the Dominion Government.

Hon. Mr. MANION: There is an item there of \$420,000,000.

Hon. Mr. EULER: Carried as one of those non-active assets of the government.

Hon. Mr. MANION: That was explained by Mr. Roberts yesterday.

Mr. GEARY: I wonder if the accountant could explain this item to us so that we will understand it, to show us why a deficit in a profit and loss account is used in a reduction of the liabilities in this general statement. I know it is proper, but it was the subject of a misunderstanding in the house last year—at the bottom of page 9 you will see the profit and loss balance is in the red. The ordinary layman would think that a deficit in the profit and loss account would be a liability rather than an asset. I wish the accountant would just explain that, because I do not think it is quite clear. It is simply an accounting matter, but I do not think it is quite understood. That is not a condition that could exist in the solvent industry at all. Apparently it is placed there in order to get the two sides to balance; the asset side is that much less than the liability side.

Hon. Mr. MANION: If you continue making deficits, you will gradually wipe out your assets altogether.

Mr. GEARY: If this is just a book-keeping entry I can understand it; all I want is an explanation so we will understand it.

Hon. Mr. MANION: I think Mr. Geary's request is a good one.

Mr. GEARY: Why should you reduce your liability?

Mr. COOPER: In the first place I might say that we use the form of classification that is used by all United States railways.

Mr. GEARY: You mean, the Inter-State Commerce Commission.

Mr. COOPER: It is one of their requirements that a debit balance should be shown as a reduction on the liability side of the balance sheet. It could not be an asset in any case. You could not properly say it is an asset, to go on the other side, could you?

Mr. GEARY: You could not, but it might in effect achieve that result.

Mr. COOPER: In theory I think the deficit itself should be considered a reduction in the shareholders' equity as set up above. In this case the equity is represented by the shares held by the government, and by loans due to the government. The gross amount due to the government should then be reduced by the amount of the deficit suffered in operation.

Mr. GEARY: The capital is impaired to that extent.

Mr. COOPER: Yes. Now, Mr. Geary, on the balance sheet statement it is fairly common practice now to deduct a deficit directly from the shareholders' capital. This is so shown for purposes of uniformity.

Hon. Mr. EULER: Don't you think it would carry to the general public a clearer idea of what that means if instead of showing it as a deficit, you were to show it as an excess of liabilities over assets; because, after all, the purpose of a balance sheet is to show a balance, as the word indicates. If you had a surplus it would be on the other side, an excess of assets over liabilities. In the case of this deficit it is a case of an excess of liabilities over assets. This merely established a balance.

Mr. HANBURY: It is a deduction in this case, instead of an addition to the general set-up.

Mr. COOPER: Ordinarily it would be a credit to the shareholder and it would properly show up on this side. This is the side on which it would ordinarily appear. In our case it is a minus quantity, but it is still properly carried.

Sir EUGENE Fiset: In other words, it looks well on paper.

Mr. COOPER: What we should do is to take the capital stocks due the government, and the loans due the government, put them together and deduct from that gross amount the amount of the impairment of the capital represented by the deficit.

Mr. GEARY: So that if the thing were wound up on this statement the capital account would have to be reduced by this amount?—A. Exactly.

Mr. GEARY: Then, you are not insolvent, but you are not quite paying your way.

Mr. COOPER: We are not insolvent so long as the government is keeping us in funds.

Mr. HANBURY: Just to make the point perfectly clear, will you tell us whether the total liabilities of the national railways would be \$2,366,000,000 plus a loss of \$743,000,000, or minus a loss of \$743,000,000.

Hon. Mr. MANION: It would be plus.

Hon. Mr. EULER: No.

Hon. Mr. MANION: Oh yes, it is. May I just say that if you add them together yourself you can see it; cut off that \$743,000,000 from there and you will find the figures add up to over \$3,000,000,000.

Mr. HANBURY: The liabilities total over \$3,000,000,000?

Mr. SMART: May I just give my side of it now? That \$743,000,000 in your liabilities show the deficits—we do not consider them a liability in the sense that it is subtracted anywhere, because they will never be paid back anyway.

Mr. GEARY: Then, if you cleaned up your assets, 100 cents on the dollar, you would be \$743,000,000 short of paying for everything you owed.

Sir EUGENE Fiset: In accordance with your new system of financing, some moneys are being advanced from the Consolidated Revenue Fund to the railways, are any interest charges on that covered in there.

Mr. COOPER: Not so far as the last two years are concerned.

Mr. HANBURY: Might I suggest to you, Mr. Chairman, that many of the members of this committee wish to attend a luncheon at one o'clock to the next premier of Ontario. We would like it very much if you would take that into consideration.

Mr. STEWART: I did not know that Mr. Henry was in town, there is no chance of anybody else occupying that job.

The CHAIRMAN: I have no intention of depriving you of the pleasure of a luncheon; we will adjourn now.

Sir EUGENE Fiset: In the meantime, could we not pass the balance sheet.

The CHAIRMAN: We could not do it, we have only ten or fifteen minutes; we will have to have another meeting. I think we can have that meeting to-morrow, and we will try and clean this thing up.

Mr. HANBURY: Could we not get permission to sit this afternoon?

The CHAIRMAN: We have not get permission from the House, and I do not think we could do it.

Mr. EULER: I would like to make a suggestion: I do not know whether members of the Committee have studied the auditor's report, I have not studied it very closely myself, but there is some very very interesting information in that, especially beginning at page 28 and running over for a number of pages; he deals there with the matter of the misconception on the part of the public, and he states exactly what he means by that. I think we should discuss that, and if the members had an opportunity of studying it, we would probably be able more intelligently to discuss it at some other meeting. It is very very interesting, and I think it ought to be of interest to the committee. Perhaps they have already made a study of it.

Mr. FRASER: It is the heart of the whole thing.

Mr. EULER: He makes some recommendations there which I think we ought to consider very very carefully, because it might enter into our report as a recommendation to the House.

The CHAIRMAN: What is your pleasure about another meeting?

Mr. GEARY: I would suggest that you ask the House at three o'clock for permission to sit again at four.

Mr. EULER: I think we should have time to study this.

Sir EUGENE Fiset: The committee will not be able to do that, a motion made the same day does not apply.

The CHAIRMAN: I do not think I can get it done, I should have asked for that yesterday.

Mr. FRASER: I would suggest eleven o'clock to-morrow.

Hon. Mr. EULER: I would suggest, Mr. Chairman, that you might ask for permission for the committee to sit at any time when the House is in session, it is just conceivable that we might go on next week. If we did want to go on next week, you would be able to sit while the House was in session if you had the permission.

Hon. Mr. MANION: Yes; by unanimous consent I suppose we could get leave of the House to sit this afternoon. Is it the desire of the committee, if we can get unanimous consent, that we should sit this afternoon.

Some Hon. MEMBERS: Hear! Hear!

The Committee adjourned at 12.45 p.m., to meet again this day at 4 o'clock p.m., subject to leave of the House to that end being obtained.

The Committee resumed at 4 o'clock.

The CHAIRMAN: Gentlemen, let us resume.

Hon. Mr. MANION: Before we go into regular business—and I do not intend to start any political discussion in any shape or form—

Mr. GRAY: Go ahead.

Hon. Mr. MANION: —I did not have under my hand this morning a statement of Mr. Hungerford which he had given to the press without my knowledge when we were talking about economizing, and which I have quoted in the House

of Commons on one or two occasions, and I would like to put it on record as a matter of evidence in regard to the remarks made this morning by Mr. Gray which I disputed. This is the press statement given by Mr. Hungerford to Mr. Paul Reading who, in turn, quotes it in the *Ottawa Citizen* of September 4, 1932, and this is part of Mr. Hungerford's statement absolutely verbatim. He said:—

Railway economy, he pointed out, was a progressive thing. It involved a constant increase in efficiency. Perhaps the best measure of recent improvement was that whereas the net operating revenue of the Canadian National in 1928, its peak year, had been roughly \$56,000,000, the system as now organized could show a net of over \$75,000,000 on the same volume of traffic as it handled in 1928."

Now, this statement was given to Mr. Paul Reading and I read it as an ordinary reader in the press and I did not know the statement was going out. I wanted to put Mr. Hungerford on record, since we had the dispute, and I do not think he will question that because the words were in a statement he gave out. I can give you the original if you want it.

Mr. HANBURY: Would that be based on lower wages or on lower costs of materials or in increased efficiency or in some other way?

Hon. Mr. MANION: I do not wish to argue that out, but he simply says that the system as now organized could show a net profit of \$75,000,000. That would be \$19,000,000 of an increase in profit because of economies. I presume it would take in some of the things my honourable friend says. At any rate, it shows a special economy of \$19,000,000 in 1932 as compared with 1928 which was the peak year.

Mr. HANBURY: But not necessarily a comparative economy with other class A railroads.

Hon. Mr. MANION: No; but I think the Canadian National Railways made very much greater economies than other class A railroads.

Mr. HANBURY: That is a question of opinion that could be easily substantiated. It is not necessarily a comparative economy on the part of the Canadian National Railways that other railways did not participate in.

Hon. Mr. MANION: The fact is that he states that had they had the same economies in force in 1928 as they had in 1932 they would have made \$19,000,000 more proves that the economies were there. The details will have to be given us by Mr. Hungerford, but I wanted to quote him as saying that there were those special economies.

Mr. GRAY: I am not going to involve Mr. Hungerford, but I still stand on the statement I made this morning, and I think, without getting into a controversy with the Board—

The CHAIRMAN: That you could make a pretty good case out?

Mr. GRAY: —that I could make a good speech on the reason why 6,000 men were fired.

Hon. Mr. MANION: You always make a good speech on almost any subject.

Mr. FRASER: I was going to suggest, Mr. Chairman, that I noticed in the press some time ago a statement which had been made by the chairman of the Commission rather in an attempt to allay the fears of the workmen in the system with regard to the abandonment and combination of certain lines of railway throughout the Dominion. I wonder if we could not have that incorporated in the record. I thought it was a very convincing statement of the whole that, and a very comprehensive one. I was wondering if we could not have that incorporated in the record.

Hon. Mr. MANION: I do not know what statement you refer to. Maybe Mr. Fullerton could tell us about it.

Hon. Mr. FULLERTON: Do you mean the message to the men which was published in the Canadian Railway Magazine?

Hon. Mr. MANION: I have no objection.

The CHAIRMAN: If it is the wish of the committee that it should be incorporated in the record, I think myself it probably should be read.

Mr. McGIBBON: I think so too, Mr. Chairman. I think in the interests of the public the true picture of these railways ought to be given out. I think we ought to tell the public just how much in dollars and cents ordinary depreciation, which has been written off for a good many years, would amount to in this road. Railway men have told me that it runs from 2 per cent to 7 per cent. Now, that probably would amount to \$40,000,000 or \$50,000,000 a year. I asked a question this morning trying to get at that, and if I got the purport of the answer properly we are writing off less than a million and four million on equipment. Now, the people ought to have a proper picture of this road. Sir Joseph Flavelle in his course of questioning on the Duff Commission said that depreciation was just as much a charge against the railways as wages and fuel. Now, unless we give the people a proper picture—unless we get into our own heads what we are up against we are not going to solve that question. It is not going to be solved by speeches or by newspapers who are continually feeding the Canadian people with a lot of stuff that I think is not a hundred per cent correct; and I do not think it would be an unfair figure to say that \$50,000,000 a year for depreciation would be a proper figure. Someone may contradict that if he likes, but if you take the amount of money that we owe the public, 4 per cent on that would be about \$52,000,000.

Hon. Mr. EULER: I do not want to contradict anything, but I would like to ask whether possibly the replacements we allow are equal to the depreciation.

Mr. McGIBBON: Nothing like it. Let us get a true picture of the thing putting down a fair amount for depreciation, then take your replacements and put them on the other side. Personally I hope it is good.

The CHAIRMAN: You must remember this: in a great many businesses the question of depreciation is not always taken by the business in the same sense as Dr. McGibbon says. If a company—whether it is a manufacturing company or not—kept up its plant in first class condition it is not necessary at the same time to furnish a large depreciation account.

Mr. HANBURY: Unless you want to save income tax.

Mr. McGIBBON: I say give us both sides of the picture. I think depreciation in railroads must be heavy.

The CHAIRMAN: A good deal depends on what they are spending on maintenance.

Mr. McGIBBON: All I am asking is to give us a true picture, and I hope it is a good one.

The CHAIRMAN: I cannot give you the picture.

Mr. CANTLEY: Before that matter is dealt with, I think you would have to decide on what items depreciation was going to be calculated. For instance, take the roadbed. My idea is that the roadbed of any railway that is kept up is improving all the time. It must be so; it is so. Now, you have to eliminate that. It is a large factor in the whole cost of the road.

Mr. McGIBBON: I am not discussing that. Surely with one hundred years of experience in railways here in the United States and elsewhere some scheme of depreciation has been worked out. All I am asking for is an application of that scheme to the national railways.

Mr. CANTLEY: My point is that before that is done the committee ought to decide on what items they want depreciation worked out.

Hon. Mr. MANION: I am informed that the Interstate Commerce Commission has for many years been trying to work out some basis. I mention that because it is the best opinion I could get.

Mr. McGIBBON: It has been applied practically not in this country but in Europe. Put the scheme, whatever it is, to work on the Canadian National Railways and let us have a true picture.

Hon. Mr. FULLERTON: In the United States they have never fixed the percentage; each railway puts it at whatever percentage it chooses.

Mr. McGIBBON: By studying them all you get certain ideas as to what they do on different lines as regards your rolling stock, roadbed and so on.

Hon. Mr. EULER: I would like to ask Mr. Hungerford whether taking into consideration actual additions by way of additional cars, equipment and things of that sort, in his opinion the physical value or physical condition of the railways, anything that is subject to deterioration, has been kept up—is it now in as good a physical condition as it was three or four years ago? If it is not, of course, there would be depreciation.

Mr. HUNGERFORD: I do not think that the average condition is quite as good, but I do not think the difference is great.

Mr. GEARY: Is it not a matter largely of policy. If the road has made good year after year out of current revenue what the depreciation is is just that used-up portion of the book value. I think I am correct in saying that. That is really what you charge as depreciation—the used-up portion each year as a used-up part of your value; and when you come to replace, what you do, I suppose, is to create depreciation with the new cost and charge it with the salary. Am I right?

Mr. HUNGERFORD: Not far away.

Mr. McGIBBON: I am not asking that. I am not discussing methods.

Mr. GRAY: I agree with Dr. McGibbon. I feel we are entitled to know the true picture. There is no need of slavishly following the Interstate Commerce Commission. I have heard that for years, and we might as well make up our minds that this is a Canadian road and that the Canadian people are bearing the burden, and that a true picture has to be presented to the people.

Mr. GEARY: The point I am making is this: what is the value of it?

Mr. GRAY: What is the value of any picture. As long as you tell the people the truth they will know what they are faced with.

Mr. McGIBBON: Of course. Absolutely.

Mr. GEARY: If there is deferred maintenance cost that should have been made before, I see some value in it; but the road is not for sale; the present value of it as a road does not make much difference.

The CHAIRMAN: As I understand the matter, this company has never presented us at any time as far as I know with a depreciation account. Now, Dr. McGibbon and Mr. Gray say we ought to start and ask the management to produce a depreciation account.

Mr. McGIBBON: We ought to get a starting point.

The CHAIRMAN: As I understand it, you want to adopt a new system. I am not in favour of that.

Mr. McGIBBON: No. That is not it.

Mr. FRASER: I notice a reference in the auditor's report, and I want to quote from page 11:—

Retirement and Depreciation policy 1923 to 1933: Retirement accounting has been applied on the Canadian lines within the provisions

of the operating classification issued by the Department of Railways and Canals in 1915.

From 1923 to 1930 the retirement accounting basis presented no serious problem in so far as the net income result was concerned because of the liberality of charges to operating expenses on account of rehabilitation and the improvement of operating standards.

During the latter part of 1931 and extending through the year 1932, because of the contraction of maintenance provisions the retirement charges to operating were left without the support of such provisions that existed in prior years, and to meet the situation an increase was made in 1931-1932 retirement quotas with the proviso that the 1933 quotas would be increased by a further \$500,000 regardless of traffic declines.

The question that occurs to me in regard to that is, was that \$500,000 appropriated for that purpose in 1933?

Hon. Mr. FULLERTON: The auditor is here and could give you any information you wish.

Sir EUGENE Fiset: As a matter of fact, in accordance with the auditor's report at any rate, in addition to the provisions for depreciation at 2 per cent up to 1932 you have added a special quota of \$500,000 over and above the 2 per cent generally provided.

Hon. Mr. MANION: Mr. Matthews, you have heard the statement read; will you just come forward and answer any questions asked.

Mr. O. A. MATTHEWS, called.

Hon. Mr. MANION: Mr. Matthews has been an auditor with the Touche Company for a good many years on the Canadian National Railway.

Mr. FRASER: Was it provided, it does not say there that it was provided?

Mr. MATTHEWS: What was the page, sir?

Mr. FRASER: Page 11. The question I asked was, was that provided?

Mr. FRASER: No?

Mr. MCGIBBON: Now, did you get my point, the question I asked?

Mr. MATTHEWS: First of all, what question did you want me to answer?

Mr. MCGIBBON: Here you have two plans—in one you are taking a fair sum for depreciation, and against that you are putting the money you spent for retirements. How do they compare?

Mr. MATTHEWS: That is a fair question, I think, Mr. McGibbon. I would be very glad to answer it. In the first place, we say in our report that the question of retirement accounting on Canadian lines versus depreciation accounting from the year of amalgamation up to 1930 presented no serious problem—for this reason; that in 1923 this system took over a property that had to be rehabilitated in some measure. There was a study made back to 1922 or 1923 taking the operating standards as they existed at or prior to amalgamation and subsequent thereto together with the retirement that had been charged during those years, and comparing them with a theoretical depreciation basis for these years. And what we found was this, that if there had been a theoretical depreciation charge—obviously in all these years being auditors for commercial enterprises we have not been ignorant of the fact that much criticism has been levelled at this retirement basis of accounting—much of the amount that had been absorbed in the operating expenses of the individual years would have been charged against reserves, together with the retirements. And I could give this committee, if they are interested—or any member—a rough outline of that study made in 1930 or 1931.

Now, it was on that basis we considered for these eight years, the income accounts of this property were a fair reflection of operating results; but one of the things that has never been understood—and I recall at this moment an outstanding writer for the Wall Street Journal some three or four years ago taking the income accounts of the Canadian National, and sitting down, as many do, with a pencil and figuring that theoretically there should be so many million dollars of retirement charges in lieu of depreciation shown in the account, and that the difference is what should be deducted from the net income. Nothing could be more fallacious, for the simple reason, as most of you are aware, you must first know what is included in the operating accounts. And this study, for these eight years, made a broad separation of the operating expense charges that under depreciation accounting would have been charged against reserves, but which in actuality were charged to the operating accounts in each year. I would be very glad to give the information on that rough study up to 1930.

Mr. McGIBBON: Could you put that in?

Mr. MATTHEWS: Yes, we could.

Mr. McGIBBON: Thanks very much.

Mr. MATTHEWS: I am very glad you raised that point, Dr. McGibbon, because our position as auditors of this property is a very difficult one; many statements are made that we have absolutely no opportunity to refute.

Depreciation I think is one of the bugbears. There are religions, politics and depreciation; and I think the most controversial is depreciation.

Now, starting with 1931 when a new problem had arisen because maintenance charges to operating were falling off, there was no continuous policy of the upward trend in the rehabilitation and operating standards. Therefore, in 1931 and 1932 we had conferences with the Executive officers; and we said—now in view of this fact we will have to consider, before we certify the accounts, an increase in this retirement quota, and a million dollars was added—that is, for the years 1931 and 1932.

Mr. McGIBBON: Making a total for those years of how much?

Mr. MATTHEWS: Oh about—I think if I remember correctly it increased it to about three and a half million dollars. I have the figures on the other desk.

Mr. McGIBBON: Could you let us have it just approximately?

Mr. MATTHEWS: I am at a little disadvantage in not having all my papers at this desk.

Mr. McGIBBON: You could submit it.

Mr. MATTHEWS: I will be glad to.

Hon. Mr. EULER: Was that a purely arbitrary measure?

Mr. MATTHEWS: Yes, it was; it was a quota that we considered was a fair one under the circumstances.

Mr. McGIBBON: In your opinion you thought it was fair?

Mr. MATTHEWS: We thought it was fair, sir; although we do not take the position that because we thought so it was necessarily the last word.

Hon. Mr. MANION: May I get that clear: do I understand you aright, that you added a million dollars to the operating expenses; that then would appear in the deficit and the government would have to put up that money.

Mr. MATTHEWS: Oh no, that is non-cash. Retirements, line depreciation are non-cash items, it is only for the purpose of presenting a true picture of the income situation; and, of course, that has been in the back of our minds always, regardless of mis-statements to the contrary.

Hon. Mr. MANION: That would add a million to operating expenses, you say?

Mr. MATTHEWS: Yes. It is in your income account, Mr. Manion; but with no draw-down from the government.

Hon. Mr. MANION: Then that is on the debit side of your operating statement?

Mr. MATTHEWS: That is right, one of the non-cash items like depreciation and discount on funded debt; it has nothing to do with a draw-down from the government.

Hon. Mr. MANION: If you add a million to your operating expenses, that is a million less for your interest.

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: If you have a million less toward paying expenses, you really get a million from the government?

Mr. MATTHEWS: Oh no, sir.

Mr. HANBURY: It is just a control entry.

Hon. Mr. MANION: If you add a million to operating expenses, and if you have we will say five million toward interest this year, if you set aside a million on account of operating expenses to make up for depreciation, that would leave only four million for interest and the balance you would get from the government.

Mr. MATTHEWS: Supposing the income account shows a deficit of sixty million; what we certify for Budget purposes is that sixty million dollars less those non-cash items, and one of them is an increase in the depreciation reserve. But the American lines, for instance; let me see now, I believe there is something in what you say—if these operating expense charges had been arbitrarily increased with the retirement of the properties; in other words, if a reserve had been set up, then your point would be well taken. But as a matter of fact, Dr. Manion, the retirement policy which we refer to was one of increasing the quota. The point I wish to make is, if there were arbitrary increases in the charge without making the retirements of the property, then there might be an extra draw-down of a million that would not be justified; but these equipment units have all been retired.

Mr. MCGIBBON: Just a cross-entry in your books.

Mr. MATTHEWS: Yes. In a quota of that kind—obviously as auditors and I suppose we may speak freely here, with all due deference to the operating departments of all railways (not the Canadian National alone)—we know that the attitude is always one of sparing operating expenses; that is natural. So our position is, of course, that there must be a correct presentation of the facts; and with that idea in mind we would naturally have to see that retirements were reasonably sufficient.

Mr. GRAY: And you feel you have presented that picture.

Mr. MATTHEWS: Yes.

Mr. HANBURY: If it was an amortization or a sinking fund then the actual cash would go into it.

Mr. MATTHEWS: As far as cash was concerned, I can see Dr. Manion's point; if operating expenses had been arbitrarily increased a million, and the money were drawn down for that purpose simply to create a reserve, then it would not be right; but the fact of the matter is that that was not done. In so far as the auditor is concerned this leads us into rather an involved situation. In making the deficit and capital expenditure certificates for the government—at the end of that statement for example, retirements are included in income as a charge, and they are deducted in the same figure from the capital expenditures in gross; so that in the net you can see it would be the same thing. Supposing we say the only thing we spend in cash this year was \$100 for new property,

that was the total expenditure; during the year there had been retirements of \$10.00: now, what is done is \$90 is drawn down as a capital expenditure appropriation and \$10 is taken in as part as the income deficit.

Hon. Mr. MANION: I appreciate that, that is not the same statement as your million dollars; it was a new scheme; a new idea.

Mr. MATTHEWS: Oh no, sir, it was not new.

Hon. Mr. MANION: I understand that up to the time you speak of—

Mr. FRASER: This was started in 1931.

Hon. Mr. MANION: I am not finding any fault with it.

Mr. MATTHEWS: I would like to make this point clear, because this will readily explain it I think. Nothing new has taken place except this, in 1931 we had to recognize that these operating supports had been withdrawn, the amount of revenues were down, and operating policies were beginning to look stringent.

Hon. Mr. EULER: They did not spend as much on maintenance, is that what you mean?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: And no railway spent as much. Every railway had to defer its maintenance throughout the depression.

Mr. MATTHEWS: Maintenance is another question. If we just settle this point, that nothing took place in 1931 that was different to any other year, except we had to see this retirement charge went up.

Mr. FRASER: And you added \$500,000 to the depreciation account?

Mr. MATTHEWS: There was an increase made in 1931 and 1932, charges for operating expenses, of something around a million dollars; and in 1933 it was arranged that a further half million be charged, and I may say that in 1934 there will be a further charge—a further addition to that.

Mr. DUFF: In what accounts? It was a charge to operating expenses, where was it credited—this is a double entry journal entry.

Mr. MATTHEWS: It will be charged to maintenance account as a retirement, and credited to property account when retired.

Mr. FRASER: Do I understand that there is to be a further increase of \$500,000 this year?

Mr. MATTHEWS: It has got to be done.

Mr. FRASER: I understood you to say there would be a further increase.

Mr. MATTHEWS: For 1934?

Mr. FRASER: What do you say it will be this year?

Mr. MATTHEWS: It is a little early to say yet, we wanted to make a further study of that along with the trustees. So far as we are concerned we feel, as we have said, in our report, that regardless of revenues the trend of charges through operating expenses for retirements must be kept up.

Mr. GEARY: On that million of Dr. Manion's.

Hon. Mr. MANION: Oh, it is not mine, put it in your own expenses.

Mr. GEARY: As far as I can understand it is merely a matter of book-keeping entry.

Mr. MATTHEWS: I do not know that I could explain it any better.

Mr. GEARY: It is as clear as mud to me, I want to see if I can understand it. You said that the sum of one million dollars is included in the operating expenses, did you; one million is the quota for the retirement.

Mr. MATTHEWS: The increase.

Mr. GEARY: Suppose you had more revenue than operating expenses, then your operating expenses would be reduced by that million dollars, would it; but that million dollars would not be a cash entry of an amount paid to anybody—this million dollars is not paid to anybody.

Mr. MATTHEWS: No.

Mr. GEARY: It is simply a book-keeping charge to an account.

Mr. MATTHEWS: Yes, that is right; it is cash only in those cases in which you buy new equipment.

Mr. GEARY: So there is no occasion to reduce the amount of money got from the government in regard to this?

Mr. MATTHEWS: As I said, it is just a debit and a credit; not a net cash draw down.

Hon. Mr. MANION: Suppose we accept it as a book entry; and let it go at that.

Mr. GRAY: You say it is an arbitrary figure.

Mr. MATTHEWS: The point is, gentlemen, it is an essential thing that we as your auditors must see that the income account includes sufficient charges—that the net income account will not be distorted.

Now, this particular man to whom I referred in the Wall Street Journal, tried to show that in one year the income account should have been charged something like fifteen million; the difficulty was that this particular gentleman did not know what was already charged in operating expenses, or what would have gone into reserves under depreciation accounting.

Mr. GEARY: Retirement accounting is the thing you use; just what does that mean in your book?

Mr. MATTHEWS: It just means this, depreciation is theoretical, retirement is actual; when a unit of property is retired from service it is charged to operating expenses and credited to property.

Mr. GEARY: That is, your property account goes down and you are up on expenses.

Mr. MATTHEWS: That is right, just exactly the same in principle as if you had debited depreciation and credited reserves.

Mr. GEARY: Then when you speak of retirement accounting that means it is by itself; it is put in the retirement account, in the sense of being in the gross amount entered each year.

Mr. MATTHEWS: Yes.

Mr. GEARY: That is just what I wanted to get at; retirement accounting means you are taking the items as they are retired, one by one.

Mr. HANBURY: Charging that million dollars to operating account, you actually showed by that book entry that the net results were one million dollars worse than they would have been if that entry had not been made.

Mr. MATTHEWS: But apart from the question of an entry, sir, it was a question of the determination of a quota, so to speak.

Mr. HANBURY: Yes, I realize that; but my point is this: if you had not made that entry the railway company would have shown better by one million dollars; as it is now it shows a loss in operating.

Mr. MATTHEWS: They were retirements.

Mr. HANBURY: Had you not made that entry they would have been that much better off.

Mr. MATTHEWS: Yes.

Mr. HANBURY: All right. Dr. Manion was very much worried; he thought the railway company was doing better, and I was just trying to show him that it was doing worse.

Mr. MATTHEWS: But there was no draw-down in money; of course, if there had been we would certainly have called your attention to it.

Hon. Mr. EULER: It is an action which the railways take and which the auditors take; does that now supply what Dr. McGibbon says, a true picture?

Mr. MCGIBBON: He has supplied part of it, he is going to give us a memorandum.

Hon. Mr. EULER: Is it nearly a true picture, what we have got now?

Mr. MATTHEWS: If we did not think it was fair presentation we would not sign it.

Mr. GEARY: Your statement of retirement accounting during this period from 1923 to 1931 leaves you in the same position as though you set up depreciation accounts.

Mr. MATTHEWS: I would not say that. From 1923 to 1930, the year in which the study was applied, it will show that there was some reasonable relationship to theoretical depreciation; but from 1931 on the situation changed, for the reason that we gave you. And if you refer to our certified accounts we state clearly on the bottom that the accounts are for the Canadian lines on a retirement basis; that is fair notice to anybody that it cannot be depreciation accounting on the Canadian lines. But I certainly would not make the statement that theoretically the retirement accounting and depreciation from 1923 to 1931 would be the same, because the various factors do not always coincide.

Mr. GEARY: What you say is that it presented no serious problem.

* * * *

Mr. GEARY: Your language is, it presented no serious problem.

Mr. MATTHEWS: In our opinion of 1923 to 1930 the problem was not at all a serious one.

Mr. GEARY: Suppose you set up a depreciation account on the basis of ties ten per cent, and other items at appropriate amounts, representing the used-up value of the road as it is to-day, you would have to charge a very considerable amount into your liabilities, wouldn't you?

Mr. MATTHEWS: Oh, you would have to increase your operating charges very considerably.

Mr. GEARY: To bring it up to date, you would have to put in a lump sum—

Mr. MATTHEWS: Really, gentlemen, in our report we have tried to outline the difficulties of depreciation accounting in the United States. In that depreciation order No. 15,100, of which I have a copy here if any member is interested, you will find their theory of depreciation accounting for railways. Its practical application could not be so simple as some people think, otherwise these United States interest would not have made the postponements we have referred to on page 13. We can only deal with the facts as we find them. I will read what we said on page 13: "Whilst the application of depreciation accounting for industrial and mercantile corporations is universally recognized it will be seen from the foregoing supplementary orders and postponements that the Inter-State Commerce Commission and the railroads of the United States have not found the problem so simple of practical application."

Referring to the British railways we find that as a result of the experience they have had it is only within the more recent years they have been able to come to a unified basis of depreciation accounting.

Mr. GRAY: Are we not in a position, comparable to them.

Mr. MATTHEWS: Not on this depreciation accounting. What I am saying is that the British are one step ahead of all of us. They have depreciation accounting in Britain to-day on both fixed property and equipment; but remember their operating conditions with respect to climate, distance, and all the factors that enter into the problem, are different. Therefore, we say in our report the United States is the best comparison we can use; and there since 1887 with the commission and the advice and counsel of the accounting officers of the United States railways they have not been able to make order 15100 finally effective.

Now, that is the best answer I can give to you to the question of railway depreciation. When they solve the problem we may be able to solve it, but we are not smarter than they.

Hon. Mr. EULER: What was the gross outlay prior to 1931 and since 1931; is that now reasonably adequate to take care of depreciation.

Mr. MATTHEWS: We think so for retirements only Mr. Euler; but we do say this—I would like to call attention to what we have said in our report.

Hon. Mr. EULER: You refer to the definite recommendation which appears on the bottom of page 13 and 14.

Mr. MATTHEWS: Yes.

Mr. McGIBBON: The difference between 1923 and 1930, would that be a large amount of money they are putting back into the road?

Mr. MATTHEWS: For new equipment, do you mean?

Mr. McGIBBON: Yes.

Mr. MATTHEWS: Yes, but I am giving now maintenance of equipment charges per train or car mile, and maintenance of way and structure charges per mile of road during these years; and comparing them with the relative standards say in 1922 or 1923 to 1930. Since 1930 there is always this, and the C.P.R. refer to it in their report, the railways, naturally used their newer equipment to save their operating expenses. The C.P.R. made that statement in their report a couple of years ago or so.

Mr. McGIBBON: Thank you very much.

Mr. GEARY: Have you a copy of order 15100?

Mr. MATTHEWS: I think I have a copy here.

Mr. GEARY: Your recommendations are definite, on pages 13 and 14.

Mr. MATTHEWS: Yes, sir, that is what we recommend in regard to depreciation.

Mr. McGIBBON: It is a very difficult thing evidently to arrive at any conclusion.

Mr. MATTHEWS: There is the history of the situation with those bodies that have been studying the matter, for nearly fifty years, in the U.S.A. and longer in Great Britain.

Mr. McGIBBON: You have given us a lot of information.

Mr. MATTHEWS: As a matter of fact the original order 15100 was to have been made effective in 1928, and it has been put off as we have shown here year after year, and now it has been postponed again to 1936; so there must be something to it: and our view is this, let the other people spend the money and find the basis for the practical solution of this problem; when they have found the solution let the Canadian National take it; but until they do that there would appear to be no good reason why the Canadian National should involve itself in needless accounting expenses so long as their retirement accounting is kept up where it should be. We recognize however that eventually you will have to adopt depreciation accounting.

The CHAIRMAN: Are there any more questions for Mr. Matthews?

Mr. GEARY: I do not think I will read this order 15100, it is only about 150 pages long. It was to become effective when?

Mr. MATTHEWS: Originally in 1928.

Mr. MCGIBBON: Could we have that report he is going to get for us incorporated in the minutes?

The CHAIRMAN: If it is the wish of the committee. Mr. McGibbon asks that the statement when it is received be incorporated in the minutes; is that your pleasure? Carried.

Mr. MATTHEWS: That statement is not one that we are prepared to say—.

Mr. GRAY: You do not suggest that it is the last word?

Mr. MATTHEWS: No, not at all.

Mr. HANBURY: They recommend a reduction of the capitalization, I think that speaks for itself.

Mr. MATTHEWS: In our Audit certificate since 1923, if you will read it, you will find we have always qualified the value of the investment in road and equipment, because we know that prior to 1923—for instance, the C.G.R. according to the findings of the 1925 audit board—they then recommended that \$152,000,000 be written off the property; and we know in the other corporate units there were charges in investments in road and equipment account that would have no place in railway accounting practice to-day. Our certificate has always been qualified as to the Valuation of the Investment in Road and Equipment Account as Capital Assets.

In connection with the Capital Adjustment Proposals, it should be borne in mind that what is shown as being owing to the Government is treated in our report on the basis of the certificate from a creditor, and as long as that creditor says it is a liability, so it must remain. But our proposals dealt with a suggestion to the creditor, which in this case is Parliament, to consider the effect of discontinuing a practice that in our opinion is harmful.

Mr. GEARY: There is nothing illusory in the statement at all as to the value of the road.

Mr. MATTHEWS: No sir not since 1923. The distribution as between capital and income account since 1923: we accept full responsibility for the accounting distribution, and the authorities from parliament to make the expenditure since amalgamation. It is a complete picture in that sense.

Mr. GRAY: I would like to ask Mr. Matthews if he has anything to add. You have had the advantage of seeing the statement which is signed by the chairman of the Board of Trustees with respect to the recommendation of a new set-up of the capital structure. I wonder if you have anything to add to what the chairman of the Board of Trustees has said. I think that is a matter we are all vitally interested in.

Hon. Mr. EULER: I want to back that up. I am looking at a phrase "Misconceptions" in the public accounts with regard to these railways. It refers particularly to that billion dollars that they are suggesting, being a bookkeeping entry, could be written off. Get rid of the fictitious assets on the government books and the fictitious liabilities on the railway books. I would like Mr. Matthews to enlarge on what is meant in this auditor's statement.

The CHAIRMAN: Did you cover that in your report?

Mr. MATTHEWS: In our report we dealt with five arguments which at that time we had known. Since the publication of our report we have found seven more arguments that have been advanced in the public press and by public utterance, and if it is the wish of this committee we are perfectly prepared to

go along and enlarge on what has been said in our report and to deal with those arguments which have arisen since the report has been published.

Mr. HANBURY: I would suggest that that should be submitted in written form.

Hon. Mr. EULER: Let us hear it. I may, if necessary, have to move—

Mr. GEARY: We do not need a motion.

Mr. MATTHEWS: I have not got it in such form that I could present it just at the moment, but it would not take me long to say what we have in mind if you want to hear it.

Mr. GRAY: I would like to hear it, and if it is the wish of the committee, to have it printed.

The CHAIRMAN: Of course, it will go into the report; but if he prefers to have it written then we had better have it in the best shape we can get it.

Hon. Mr. MANION: Whatever Mr. Matthews feels is in the best interest of the committee.

Mr. MATTHEWS: I could not put what I have in its entirety, because I did not write it with that idea in mind.

The CHAIRMAN: You had better have the report the way you want it printed, and we will have it in better form.

Mr. MATTHEWS: I can read it in that way.

Hon. Mr. EULER: I wish Mr. Matthews would discuss this in an everyday form and let us understand it.

The CHAIRMAN: Whatever the committee wishes is all right with me.

Hon. Mr. EULER: With regard to these misconceptions. He has given five reasons for writing down that capitalization. Since then I think he has found seven more. I wish he would give them.

Mr. MATTHEWS: By way of explanation, let me say that the C.N.-C.P. Act, 1933, requires the auditors in their annual report to parliament to "call attention to any matters which in their opinion require consideration or remedial action."

We consider that the capital structure of the National system falls under this caption but in carrying out this particular injunction of the Act we do not wish to be considered as making any determined plea or persuasive effort for the adoption of our proposals. Having discharged our responsibilities as auditors in calling attention to the situation and with the submission of any further explanations required by the committee, the matter, so far as we are concerned, rests entirely with parliament.

Furthermore, these capital adjustment proposals are not put forward by us in any sense as a "cure-all" for Canadian National Railway financial problems, but rather as a forerunner or a complement to whatever operating measures may be found necessary in the future to establish the railways on a sound economic footing—whether by co-ordinated effort, by unification or by any other means which may be developed to meet the exigencies of the situation.

Now, the first five arguments against the proposals are included in our report. On page 34 we have indicated the five arguments which at that time we know existed against the proposals. Since that time, in the public press and by public utterance there are seven more which we will answer.

I would like to make just a passing reference to argument "A" that was included on page 34 of our report:—

That the Dominion would lose the record of totality of National Railway System cost to the Dominion government.

That argument has already been answered, but I would like to make this further point. Dr. McGibbon yesterday asked the question if the railway accounts did not include all of the costs to the Dominion government, and I think Dr. McGibbon asked for the amount that was not in the railway accounts as a liability to the Dominion. I prepared that information yesterday afternoon, and now report that in addition to the loans from the Dominion of Canada shown on the balance sheet at \$662,000,000 and expenditures for C.G.R. of \$404,000,000 there are up to the end of December, 1933, some \$275,000,000 not now in the liabilities of the National System simply because the government do not consider them liabilities of the railways.

Mr. HANBURY: Because the government do not consider them assets.

Mr. MATTHEWS: Do not consider them liabilities of the National System.

Hon. Mr. EULER: Nor assets for themselves.

Mr. MATTHEWS: They would be in the net debt. The point I am making, Dr. McGibbon, is that \$275,000,000 in addition to what is on the balance sheet now—

Hon. Mr. MANION: And in addition to interest.

Mr. MATTHEWS: Exclusive of interest. In other words, we have reconciled this figure with that one prepared by the Royal Commission in 1931, and the total cash investment of the Dominion from Confederation up to December, 1933, excluding all interest, is \$1,341,000,000. Now, I think Dr. McGibbon also asked how it was divided between deficits and capital. It is approximately 42 per cent to deficits and 58 per cent to capital.

Hon. Mr. MANION: What is that \$275,000,000 made up of?

Mr. MATTHEWS: Government appropriations not treated as liabilities in National System amounts as at December 31, 1933:—

(1) Deficits of Canadian Government Railways prior to amalgamation—\$53,000,000 (page 14 Royal Commission Report);

(2) Eastern Lines cash deficits 1927-1933 (excluding 20 per cent) \$40,000,000. Freight rate reductions.

(3) Canadian National Railways cash deficits 1932-1933, \$106,000,000.

(4) Cash subsidies (page 14, Royal Commission Report) \$44,000,000.

(5) Acquisition of Canadian Northern stock (page 14, Royal Commission Report) \$10,000,000.

(6) Other payments (page 14, Royal Commission Report) \$22,000,000.

Total non-liability appropriations (excluding interest on above items and excluding interest on investment in Canadian Government Railways from time of construction to date (\$275,000,000).

Summary: Loans from Dominion of Canada per balance sheet December 31, 1933—\$662,000,000.

Expenditures for C.G.R. per balance sheet December 31, 1933—\$404,000,000.

Non-liability appropriations per above—\$275,000,000.

Total cash investment by Dominion to December 31, 1933, excluding all interest—\$1,341,000,000.

Deficit 42 per cent—capital purposes, 58 per cent.

The point is you hear so much talk about the fact that the government would lose the totality of their investment if the proposed eliminations were made from the National System balance sheet. First of all, you would have to add back \$275,000,000 plus all interest before you get the picture so many people talk about.

Mr. MCGIBBON: Is that your grand total?

Mr. MATTHEWS: No. \$1,341,000,000.

Hon. Mr. MANION: You are not including interest?

Mr. MATTHEWS: Excluding interest, If you included interest, Dr. Manion, I haven't any idea.

Hon. Mr. MANION: I am speaking of the interest that is shown in the statement of the railways now.

Mr. MATTHEWS: It is only part of it.

Hon. Mr. MANION: I know; but I say that interest as shown added to what you have given would be \$1,700,000,000.

Mr. MATTHEWS: Yes, and add on top of that, interest on the Canadian Government Railways and interest on \$275,000,000 and you begin to build a picture of what this true cost is—if you are going to talk about cost.

The following 12 arguments, advanced in various quarters against the Proposals, have come under our notice—the first 5 of which were set out on page 34 of our Report to Parliament.

(1) That the Dominion would lose the record of totality of National Railway System cost to the Dominion Government.

(2) That the elimination of a portion of the unpaid Government Advances from the National Railway accounts might precipitate at some future time an orgy of spending if, as and when the present subnormal economic conditions pass out of the public sight and public mind.

(3) That future wage and rate-making negotiations under prosperous conditions of railway operation might be prejudiced if the existing top-heavy Capital structure of the National Railways were reduced.

(4) That the Dominion Government as the controlling shareholder has an equity in and claim on the National System assets, represented by actual cash, because of which fact cumulative accounting for advances should remain unchanged regardless of economic conditions—national and international.

(5) That no beneficial purpose would be served by the proposed Capital Adjustment because the Canadian National Railways has no borrowing credit without the guarantee of the Dominion Government unless it be through the sale of Equipment Trust Certificates.

(6) That the Proposals would not bring about any reduction in the interest charges due to the public.

(7) That the proposed adjustments do not extend far enough to place the National System Capital Structure on a basis of potential earning power and utility value to the Dominion.

(8) That the proposed adjustments cover only the corporate units of the National System to the exclusion of the Canadian Government Railways.

(9) That the Proposals make no provision for the simplification of the capital structure by way of legal amalgamation of the corporate entities comprising the National System or by way of unification of the funded debt structure.

(10) That the adoption of the plan would prejudice the Government's position—in the capacity of controlling shareholder—in case of any negotiations in the future with a view to the transfer or sale of the properties.

(11) That no new revenue sources would be created or no reduction in taxation would be effected through the adoption of the Adjustment Proposals which are nothing more than book-keeping adjustments and the juggling of figures.

(12) That the Net Debt of Canada would be increased by over a billion dollars if the proposed adjustments were made effective.

The 12 rebuttals to the aforementioned arguments against the Capital Adjustment Proposals are hereinafter set out in their respective order. It should be noted that the first 5 rebuttals were included on pages 34 to 37 of our Report to Parliament.

(1) The National System Accounts do not now and never have purported to show the total cost to the Dominion Government because they are of necessity limited to what the Dominion Government designate as Liabilities in their

annual certificates of the auditors. The ascertainment of so-called cost to the Government would involve amongst other considerations, the treatment of the Canadian Government Railways operated as Crown Property; the absorption by the Government of the 20 per cent Freight Rate Reduction and the accumulated Deficits of the Eastern Lines since 1927 under the Maritime Freight Rates Act; the absorption of Canadian National Railways cash deficits for 1932 and 1933 and the advances by the Government since pre-Confederation days in the form of subsidies. In short, the adjustment of the Canadian National capital structure would not, we submit, preclude the Government from establishing and maintaining in perpetuity an historical record (through a simple classification of Public Accounts) covering the sums appropriated on Canadian National account for all purposes.

(2) The future protection for the Dominion of Canada against the contingency of an orgy of Canadian National Railway expenditure does not rest upon the weak premise of a top-heavy Capital structure but rather in the character and public spirit of the Board of Trustees; the extent to which the properties are operated free from community interference; the extent to which the Railway Budgets, the Financial Accounts and Auditors' Reports of the future are considered and acted upon by the designated Parliamentary authority representing the controlling shareholder. The purpose underlying the Canadian National-Canadian Pacific Act, 1933, was, presumably, to meet these conditions and in so doing to establish the fullest possible measure of protection to the Dominion of Canada in future years.

(3) The probability of prejudicing future wage and rate-making negotiations because of exorbitant earnings applied against a subnormal Capital structure under conditions of prosperity is remote at the present time as the present burden of fixed charges on the Funded Debt now held by the public and the adverse Net Income record of the National Railways, after payment of fixed charges, since amalgamation will bear evidence.

Furthermore, we submit that regardless of technical economic theories it is a matter of fact that the Capital structure has never been the primary basis of wage and rate-making negotiations by the Canadian National Railways.

(4) To contend that cumulative accounting for Government Advances must remain unchanged regardless of conditions, because of cash investment, is to ignore the actual disappearance of equity behind the original investments on the one hand and to ignore, on the other, the fact that the proposed Capital adjustment does not take away from the Government any equity in and claim on the National System assets that are actually in existence at this time. This proposed adjustment merely faces the fact of lost capital as many unfortunate shareholders in industrial and financial enterprises with excessive capital structures have been forced to do during the last three or four years in order to salvage their depleted equities to the best advantage through the protection of their financial and credit position with the public. On this point a consideration of the history of Capital adjustments of the pioneering railroads of the United States might not be irrelevant.

Furthermore, as a means of applying a balanced judgment to the matter now under analysis and consideration it is, we submit, necessary to remember that the Canadian National Railway System as an operating entity was bankrupt when brought into being.

(5) It is true that the National System has no borrowing credit apart from Government guarantees, unless it be through the sale of Equipment Trust Certificates, but this fact is the real crux of the situation.

At this point, it is we believe necessary to take into account the psychologically depressing and destructive effect on the morale of the investing and general public because of the continued presentation of a top-heavy and partially depleted shareholders' Capital structure and annual Net Income results

burdened with interest charges by the controlling shareholder for moneys advanced to replace impaired Capital.

It is our opinion that the present Governmental liability structure of the National System conveys particularly to the foreign investing public, a picture which magnifies the actual difficulties, great as they are, in which the Dominion of Canada finds itself in respect of its nationally owned railways. Furthermore, we are persuaded that foreign investors taking the present National System accounts for purposes of consolidation with the limited information available subsidy to the National System (on the basis of the National needs of Canada obtain an incorrect impression of the financial position of the Dominion as a whole.

For these reasons we believe that there is need for constructive action involving the adjustment of the present Governmental liability structure of the National System.

(6) Interest charges due the public on the Dominion Guaranteed issues can only be reduced by refunding at lower rates or by redemption through Government financing in the capacity of shareholder. Other considerations enter into the unguaranteed issues which could be enlarged upon if the Committee so wishes.

(7) The determination of a capital structure for the National System on the basis of potential earning power and utility value to the Dominion would involve the whole matter in many fickle theories and rapidly changing circumstances. Furthermore, it might involve the direct assumption of a part of the present Funded Debt by the Dominion or the payment of an annual interest subsidy to the National System (on the basis of the National needs of Canada as distinguished from Railway operations from a private profit point of view), neither of which steps would we be prepared to recommend for consideration at this time.

(8) In connection with the exclusion of the Canadian Government Railways from the Capital Adjustment Proposals we would refer to paragraph 2, page 32 of our Report to Parliament, reading as follows:—

The appropriations on account of Canadian Government Railways would remain unchanged on the Railway Books unless and until the Government decided upon a revision of the Book Value of its investment in these Crown Properties prior to amalgamation in 1923.

Should the Government desire to include with the corporate proposals the re-valuation in respect of the Canadian Government Railways we would make reference to the Report made by two independent firms of investigators under the Board of Audit Act in March, 1925, wherein it was suggested that some 152 million dollars be written off the value of the Dominion's investment in these Crown Properties as at 31st December, 1923.

(9) We do not recommend any attempt at legal amalgamation of the Corporate Entities or unification of the Funded Debt Structure at this time for the reasons given on page 19 of our Report to Parliament.

(10) In sales negotiations of any enterprise the determining factors usually are sustained earning power and existing assets—not non-existent assets and top-heavy capital structures. If, at any time, this matter were under consideration, it is our firm conviction that the present Capital Structure would be prejudicial to the best interests of the National Railways and its controlling shareholder, the Dominion of Canada.

(11) No claim is made that the carrying out of the Capital Adjustment Proposals would directly add new revenue sources or would directly reduce taxation. This, obviously, would be ridiculous. However, their adoption conceivably could indirectly affect taxation by creating a barrier against unobserved accretion to the Dominion's financing costs in the future by reason of public over-estimation

at home and abroad of the adverse effect of National System financing on the Public Accounts of Canada. The proposals primarily deal with elements which we believe will in some measure be related to the future credit of the Dominion regardless of co-ordination as at present, the unification plan or any other means of administration and control. A specific case in point is the unfavourable light in which Canada has been placed, in certain investment quarters of Great Britain, as a result of the policy of carrying the old Grand Trunk Capital Stocks—through the Canadian National Railway Company—and the relative asset accounts at the face value of \$165,627,738.70 on the balance sheet of the National System since amalgamation in contrast with the findings of the Grand Trunk Board of Arbitration in which the particular stocks were declared to be without value. Whilst we recognize the absolute and inviolable right of the Dominion to show through the National System accounts these old Grand Trunk stocks at face value so long as it chooses to do so, we believe nevertheless, that this policy has in some measure contributed to the prolongation of the unfavourable impression abroad as to the credit position of the Dominion in the settlement with the old Grand Trunk junior stockholders on the basis of the 1921 arbitration findings. We would make clear that our comments in this connection do not relate in any way to the merit of the arbitration awards in themselves but solely to the psychological effect upon a certain section of the investing public in Great Britain of continuing the inclusion of these capital stocks and the relative asset accounts at par value in the balance sheet of the National System in face of the arbitration awards.

We think that these and other vital considerations have been overlooked in certain press reports and public utterances dealing only with the revenue and book-keeping side of the matter.

(12) Quite contrary to the general conception, we would make it clear that apart from current advances only 15 million dollars out of a total governmental liability on the books of the National System aggregating 1,771 million dollars are carried as assets in public accounts. This means, therefore, that the proposals would eliminate from the capital liabilities of the National System some 1,011 million dollars with a corresponding adjustment in the Dominion net debt, apart from current advances, of only 15 million dollars. The reason for this is found in the fact that some 324 million dollars representing cash advances for deficits, the equivalent of 424 million dollars in respect of interest accruals and 15 million dollars covering old Grand Trunk grants are already in the net debt of Canada. Furthermore, some 248 million dollars is represented by that portion of the capital stocks of the Canadian Northern Railway and the Grand Trunk Railway declared to be worthless in the arbitrations of 1918 and 1921 and for which portion the Dominion paid no cash on acquisition.

The CHAIRMAN: Now, gentlemen, the railway officials desire to be back at their offices for Friday, and we will adjourn to the call of the chair.

The committee adjourned to the call of the chair.

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SESSION 1934
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

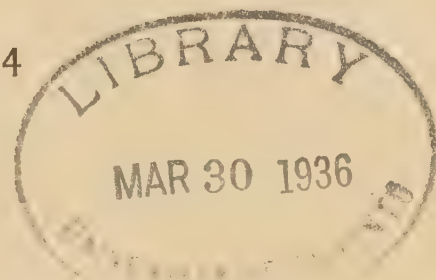
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

CONTAINING REPORT TO THE HOUSE

WEDNESDAY, JUNE 20, 1934

FRIDAY, JUNE 29, 1934



WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. J. E. Labelle, Trustee, Canadian National Railways.
- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.
- Mr. S. W. Fairweather, Canadian National Railways.
- Mr. P. M. Anderson, Counsel, Department of Railways and Canals.
- Mr. J. O. Apps, Assistant to Executive, Canadian Pacific Railway.

REPORTS TO THE HOUSE

FIFTH REPORT

OTTAWA, June 29, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to submit the following as a

FIFTH REPORT

Your Committee, in accordance with Order of Reference dated May 4, 1934, has considered the Annual Reports respecting the accounts of the Canadian National Railways and the Canadian Government Merchant Marine, and in connection therewith has examined the following witnesses:—

Hon. C. P. Fullerton, K.C., Chairman, Board of Trustees, Canadian National Railways.

Mr. F. K. Morrow, Trustee, Canadian National Railways.

Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways.

Mr. S. J. Hungerford, President, Canadian National Railways.

Mr. S. W. Fairweather, Canadian National Railways.

Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals.

Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

Mr. T. H. Cooper, Canadian National Railways.

Mr. O. A. Matthews, of Geo. A. Touche & Company, Accountants and Auditors.

Your Committee recommends that in future the naming of the Committee on Railways and Shipping be made as early in the session as possible, and that the Railway management be requested to expedite the submission of their reports and estimates with the least delay after the close of the calendar year.

A copy of the proceedings and evidence taken is attached hereto.

All of which is respectively submitted.

J. D. CHAPLIN,
Chairman.

MINUTES OF PROCEEDINGS

Room 231,

June 20th, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11 o'clock, a.m., in accordance with notice issued. Mr. Chaplin, the Chairman, presided. The following members were present:—

Messieurs Beaubier, Bothwell, Cantley, Chaplin, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Geary, Gobeil, Hanbury, Manion, Power, Price and Stewart (*Lethbridge*).

In attendance were: Hon. C. P. Fullerton, K.C., Chairman of Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. P. M. Anderson, Counsel, Department of Railways and Canals; Mr. A. V. Franklin, Auditor, Department of Railways and Canals; Mr. B. J. Roberts, Department of Finance; Mr. J. O. Apps, Assistant to Executive, Canadian Pacific Railway; Mr. O. A. Matthews, of George. A. Touche & Company, Accountants and Auditors, Toronto, Ontario.

The Chairman said the Minister of Railways and Canals wished to explain to the Committee two Bills. The Minister then read letters from the President of the Canadian Pacific Railway and the Chairman of the Board of Trustees of the Canadian National Railways requesting him to have the following Bills passed by Parliament:—

1. A Bill to incorporate Canadian Communications, Ltd.

2. A Bill to incorporate the Canadian Railway Express Company;

the purpose of these Bills being to facilitate further economies in operating, provided the two Railways arrive at a satisfactory agreement. The Minister explained that his object in bringing these before the Committee was to obtain the approval of the Committee which might assist him in getting the unanimous consent of the House to introduce the Bills to-day. It was pointed out that members of the Committee could speak only for themselves, and that any member of the House might refuse consent. The Minister decided to introduce the Bills in the regular way.

The following witnesses were called and examined: Hon. C. P. Fullerton, K.C., Chairman of Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. P. M. Anderson, Counsel, Department of Railways and Canals; Mr. J. O. Apps, Assistant to Executive, Canadian Pacific Railway.

Some discussion took place regarding the proposed Bills, and an amendment was suggested to the effect that the Canadian National Railways should always have at least fifty per cent of the voting stock of the new companies. Mr. Anderson was asked to frame an amendment accordingly, which he did.

Comparison of the salaries paid to executives of various roads was discussed; also the policy of retaining in the employe of the Canadian National Railways men eligible for pension.

The question of obligation to bond-holders for repayment in full was discussed, with particular reference to the Toronto Suburban Railway. No decision was arrived at.

The Committee adjourned until 4 o'clock, p.m.

AFTERNOON SITTING

The Committee resumed at 4 o'clock, p.m.

The question of apportioning mail contracts between the Canadian National Railways and the Canadian Pacific Railway was discussed briefly.

The obligation of the Canadian National Railways to repay bondholders in full was further discussed.

It was moved by Mr. Hanbury, seconded by Mr. Gobeil, that the reports of the Canadian National Railways and the Canadian Government Merchant Marine be adopted. Carried.

Mr. Hanbury complimented the Government on having secured a capable Board of Trustees, and on having competent officials who have the best interests of the Canadian National Railways at heart.

Mr. Hanbury requested that the officials of the Canadian National Railways furnish answers to certain questions he had asked, and that the said questions and answers be incorporated in the evidence. This was agreed to.

On motion of Sir Eugene Fiset, seconded by Mr. Fraser (*Cariboo*), the Committee adjourned at 5.10 p.m., to meet again at the call of the Chair.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

Room 231,

FRIDAY, June 29th, 1934.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 a.m., in accordance with notice issued. Mr. Chaplin, the Chairman, presided. The following members were present:—

Messieurs: Beaubier, Bothwell, Cantley, Chaplin, Euler, Fraser (*Cariboo*), Geary, Gobeil, Kennedy (*Peace River*), McGibbon, Manion, and Price.

The Chairman presented a draft report for approval. The said draft report was considered.

On motion of Mr. Euler,—

Resolved, “That the draft report be amended by adding thereto a recommendation that hereafter this Standing Committee of the House be named at an earlier stage of the session, and that the railway officials in future should submit their estimates more promptly.”

Ordered, That the draft report as above amended be presented to the House as the Fifth Report of the Committee.

The Committee adjourned.

J. P. DOYLE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 231,

June 20, 1934.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, Mr. Chaplin, the Chairman, presiding.

The CHAIRMAN: Gentlemen, the Minister desires to explain two bills.

Hon. Mr. MANION: Gentlemen, the two railways wrote me some time ago, and in a moment I will read the letter, and when I do so if you will transpose the words "express company" for "telegraph company" that will cover the letter in both cases. The Canadian Pacific and the Canadian National have got together and they want to unite into subsidiary companies their express companies and their telegraph companies—communications as they call them—as two separate companies. I will read one of the letters they have written to me, and the other is exactly the same except that it deals with the other question. This letter is signed by Mr. Fullerton and Mr. Beatty for their respective companies the Canadian Pacific and the Canadian National, and it is addressed to me:—

We are enclosing herewith draft of Bill incorporating the Canadian Railway Express Company which our companies desire to have passed at the present session of parliament as a means of implementing the recommendation of the Royal Commission on transportation respecting the conduct of express business of the two companies.

You will observe that the proposed legislation is simply the incorporation of the new company with the requisite powers to carry on the express business of the two companies if, as and when the trustees of the Canadian National and the directors of the Canadian Pacific determine that this should be done.

We regard it as essential that the legislation should be passed at the earliest possible moment in order to expedite whatever measures of economy and efficiency our two companies may jointly decide should be adopted.

This is signed by Mr. Fullerton and Mr. Beatty. The same letter refers also to the communications company except it is communications instead of express.

Mr. PRICE: What is the date?

Hon. Mr. MANION: The date is June 5. As a matter of fact it should, probably, have been dealt with at the last meeting of the committee, but I will tell you why it was not: I wanted to have this put through as a private bill of their own, with nothing to do with the government. We had given them the powers last year to do just what they are doing, and this is all under the Act. I can read the clause out of the Act, and I will read it. Clause 16 reads as follows—this deals with co-operation between the Canadian National and Canadian Pacific railways:—

Without restricting the generality of the foregoing any such measures, plans or arrangements may include and be effected by means of,—

(a) New companies controlled by stock ownership, equitably apportioned between the companies.

They should have brought them in as a private bill, which I prefer they should do. However, they pointed out in the first place there were some heavy fees which, of course, parliament could have waived, amounting to something like \$11,000. In addition to that there were the delays that could not have been got over this session. I am willing to bring these in as government measures, but since this committee was sitting I thought I should lay these bills before this committee and have a gesture of approval in a general way. The bills are here; I have four copies; they have not been introduced, but I have them ready to introduce this afternoon if this committee agrees. I might read one of the bills for you—they differ only in so far as one deals with “express” and the other with “communications”; otherwise they are practically the same. I should like to get the general approval of the committee that I should go ahead, and if this committee approves I can introduce these bills in the House this afternoon, and even if the House should adjourn on Saturday, as there is some hope of doing, or early next week, we can get them through with the consent of the House.

The Bill on communications reads as follows:—

1. Edward W. Beatty, honourable Charles P. Fullerton, Grant Hall, Frederick K. Morrow, Ernest E. Lloyd, and J. Edouard Labelle, all of the city of Montreal, together with such persons as become shareholders in the company are hereby incorporated under the name of “Canadian Communications company”, hereinafter called “the company”.

2. The persons named in section 1 of this Act shall be the provisional directors of the company.

3. The capital stock of the company shall be forty million dollars, divided into four hundred thousand shares of the par value of one hundred dollars each.

The directors may make by-laws for creating and issuing any part of the capital stock as preference stock, giving the same such preference, priority and rights over ordinary stock or other classes of preference stock as in the by-laws may be declared.

4. The head office of the company shall be in the city of Montreal.

5. The annual meeting of the shareholders shall be held on the first Tuesday in March.

6. The number of directors of the company shall be six, one or more of whom may be paid officers of the company.

7. The directors may vote and act by proxy, but no meeting shall be competent to transact business unless at least four directors are present in person.

There is an explanatory note of the said Bill which reads as follows:—

The object of this Bill is to incorporate a communications company for the purpose of enabling the Canadian National railways and the Canadian Pacific railways to effect economies and provide more remunerative operations with respect to their respective telegraph services, pursuant to the provisions of Part II of the Canadian National—Canadian Pacific Act, 1933, if, as and when the trustees and directors of the two railways, respectively, determine that this should be done.

You will notice that “if, as and when”—this gives them power to form that company.

Hon. Mr. EULER: Will this company possibly hold the stock of the two respective companies?

Hon. Mr. MANION: I read the letter from Mr. Fullerton and Mr. Beatty requesting that we put this through; and what I suggested, Mr. Euler, before you came in, was that while the government can do this, the companies really should have done it themselves. But they did not get together soon enough. I am not criticizing them but that is my impression. At the time they put it before me they did not have time. Besides, there were fees amounting to \$11,000 which the House could have ignored or remitted; but if this committee agrees—and I agree that we should—I will introduce these bills with the consent of the House this afternoon, and we can rush them through. They are brief bills, and they are in accordance with the Act of last year. If there are any questions I will be pleased to answer them.

Mr. BOTHWELL: How will the cost be allocated between the two companies?

Mr. FRASER: Is there contemplated any public offering of stock?

Hon. Mr. FULLERTON: No.

Hon. Mr. MANION: Mr. Apps is here for the Canadian Pacific.

Hon. Mr. EULER: Judge Fullerton might be prepared to give us a little more detail regarding the purposes of the Bill.

Hon. Mr. FULLERTON: The real purpose of the Bill, of course, is to effect economy; the Acts are merely enabling Acts. Our idea is that the question of the amalgamation of the express companies and telegraph companies should be studied very carefully by committees.

Hon. Mr. EULER: Is that in prospect?

Hon. Mr. FULLERTON: That is being studied. We cannot say what the result of that study will be, but we want to be in a position if we find we can institute this amalgamation to have the machinery to put it in force without waiting for next session. These are enabling Acts; we are bound in no way; it is simply a case of negotiation, and if we can agree then we have the machinery.

Hon. Mr. EULER: That is what I wanted to know—whether the passing of the Bill was virtually to bring about the amalgamation of the express services.

Mr. PRICE: Mr. Chairman, I would like to speak for a moment upon the subject of the amalgamation of these two systems. First of all, you have a crippling of the service. In the city of Moncton we formerly had the Dominion Express Company which was the property of the C.P.R., and we had the Canadian Express Company, and a few years ago the C.P.R. was forced to discontinue its express service in the city of Moncton and, therefore, Saint John was the nearest point of contact with that service. The service since that time has not been what it was when there was competition, and, personally, I take exception to it. The same thing applies in connection with telegraph lines. We have a service at the present time in the city of Moncton. The C.P.R. stayed open until about 12 o'clock; the Canadian National service, which was formerly the Western Union, is an all night service; and I can immediately come to the conclusion that when these two telegraph lines are joined together the service will be crippled; there will be one telegraph company and one express company, and there will be no competition. And at that time the people are not going to get the service they are getting at the present time, because it must be admitted that it is the intention all the way through where the two telegraph and express companies are amalgamated to cut down the service and bring them to the cheapest possible account that will give a fairly good service, but not the service we are getting at the present time.

Hon. Mr. MANION: Doctor, is it not true that we passed a Bill last session giving the companies instruction to economize? This is their proposal it is not my proposal. You can see from the letter I read from Mr. Beatty and Mr. Fullerton that they propose that they get an enabling Act which will

permit them, not to cut down the service, but the expense. I do not suppose they will admit this will interfere with their service; I do not think they made any such admission.

Mr. PRICE: There is one other question I would like to ask in regard to this matter; no doubt there are some representatives of the Canadian National Express Company here among the officials; is it the intention, if this takes place, for one company to handle the express from the city of Moncton to Montreal covering C.P.R. points, or is it the intention to simply have what we have at the present time. For instance, suppose I wish to ship some point on the C.P.R. outside of Saint John on the line to Montreal. We ship Canadian National Express to Saint John and then by Dominion Express, C.P.R. from that point on. I would like to know if the Express Company will handle expressage directly with the one company from Moncton to any point on the C.P.R. as well as on the C.N.R.?

Hon. Mr. MANION: I did not intend going into that, but I take it they would, or the people would not be favourable to the amalgamation.

Mr. LABELLE: It would be on the same principle as the United States with the Railway Express Company serving all the railways. In the United States they have that system where one express company handles the express for the different railways.

Mr. HUNGERFORD: Shipments would be made by the one company to any point on either the Canadian Pacific or the Canadian National line.

Hon. Mr. EULER: I understand the Bill has not been distributed—it is not printed?

Hon. Mr. MANION: No, it has not been distributed because I have not introduced it in the House. I thought, probably, we would be ready to introduce it this afternoon.

Hon. Mr. EULER: Does this mean there will be a possible change of ownership, or, at least, there will be ownership of the actual assets of the trust companies and telegraph companies.

Hon. Mr. MANION: May I read clause 3. Clause 3 says: "The capital stock of the company shall be forty million dollars, divided into four hundred thousand shares of the par value of one hundred dollars each." My understanding of that is that they mean to put the assets of both companies into one company which will be a joint company of the C.P. and C.N.

Hon. Mr. EULER: Before I say anything about the control of that company, I would like to ask whether that, in any sense, comes in conflict with the clauses of the Bill we put through last year?

Hon. Mr. MANION: No, that was about amalgamation. I will read that clause. I have it marked. It says in clause 27, part 4:—

Nothing in this Act shall be deemed to authorize the amalgamation of any railway company which is comprised in National railways with any company which is comprised in Pacific railways nor to authorize the unified management and control of the railway system which forms part of National railways with the railway system which forms part of Pacific railways.

I read that clause which enabled it; it is under part 2, clause 16 in regard to co-operation:—

without restricting the generality of the foregoing, any such measures, plans or arrangements may include and be effected by means of—

(a) new companies controlled by stock ownership, equitably apportioned between the companies.

Hon. Mr. EULER: I wonder what was meant by "equitable proportion"?

Hon. Mr. MANION: I suppose in accordance with their assets.

Mr. BOTHWELL: That comes back to the question I asked a moment ago as to how this stock would be allocated as between the two companies.

Hon. Mr. FULLERTON: That point has not really been reached yet; it will be on an equal basis.

The CHAIRMAN: That is under study now.

Mr. BOTHWELL: That is on an equitable basis from the standpoint of the physical assets of the two companies which exist now?

Hon. Mr. FULLERTON: And earning powers.

Mr. POWER: Have we any idea of the physical value of the assets of the two companies at the present time?

Mr. LABELLE: We have no report on the express end; we have authority to study the physical value of the telegraph companies which is a very difficult matter, because the Canadian National has a lot of very long leases—for example, the Montreal Telegraph Company which goes to 1978. It is a very difficult matter to give the right figure, but we have two committees working on it and studying the physical value, the competition value and the earning power of the two companies.

Mr. POWER: But you have not reached a conclusion or made a report?

Hon. Mr. MANION: This is an enabling Bill.

Mr. GEARY: How long is it since the companies actually took over their express companies? The Dominion Express Company was an independent company until quite a short time ago.

Hon. Mr. MANION: Mr. Apps, how long is it since the Canadian Pacific took over the Dominion Express?

Mr. APPS: 1883.

Hon. Mr. MANION: Was it part of the Canadian Pacific from the inception?

Mr. APPS: It was a subsidiary company, yes.

Mr. GEARY: It was quite independent in a way.

Hon. Mr. MANION: When did it become the Canadian Pacific Express Company?

Mr. APPS: About five years ago.

Mr. GEARY: It is run by the Canadian Pacific people. What was the name of the other company?

Hon. Mr. MANION: The Canadian National.

Mr. GEARY: Before the Canadian National took it over.

Mr. LABELLE: The Canadian Express Company.

Mr. GEARY: I remember the Canadian Pacific being rather perturbed when it was taken over by the company and the name changed.

Mr. HANBURY: I would be interested in knowing whether the Railway Commission has any control over the rates of the telegraph and express companies and the services that they shall render. Perhaps Judge Fullerton can give us some information on that.

Hon. Mr. FULLERTON: They have over the rates, certainly.

Mr. HANBURY: Not over the services?

Hon. Mr. FULLERTON: I am not sure about that.

Mr. HANBURY: I find myself to a considerable extent in agreement with Dr. Price, but perhaps I am on a little different basis from him in that regard. I did not favour the Canadian Pacific and Canadian National bill last year; I

opposed it. I could not see the economy of the measure at that time, and I fail to see the economy of the measure at this time. I fail to see the true economy of the amalgamation of those particular services as forecast in the proposed bill. When we are considering economy, we have to take into consideration the labour that is going to be displaced, and we also have to take into consideration the lack of competitive services the people of this country are going to receive. True, I recognize the bill passed last year did contemplate such amalgamation as is now suggested; whereas the bill contemplated and forbade any amalgamation of the railway services. If I accepted these bills, it would simply be on this basis, that the legislation is now in effect, and it is perhaps not our duty to put any impediments in the way of the railway companies carrying out the wishes of parliament as expressed in the bill. But my personal view of this matter is, I am opposed to it; I do not think it is true economy, and I think that the people of Canada would suffer from the lack of competitive services in the future.

Hon. Mr. EULER: Mr. Chairman, I have always in the past, as I think many of the committee know, been in favour of doing everything possible to effect economies on the Canadian National Railways; and to that extent, I am entirely in favour of any legislation that may carry out that intention. The only thing that occurs to me in connection with the bill is this: in the new company, the only shareholders will be the C.P.R. and the C.N.R., I take it. Is that correct? They are the only ones that may be shareholders?

Hon. Mr. MANION: Of course, they may issue capital or preference stock, so I suppose they may sell it.

Hon. Mr. EULER: I think the committee should know whether it is the intention that this new company shall consist only of the C.P.R. and the C.N.R., or whether the outside public will be invited to subscribe. I think it is of considerable importance to know that. If my assumption is correct that there shall be only those two shareholders, the C.N.R. and the C.P.R., then one or either of those will have control, I take it, especially if, as I stated, there shall be an equitable allotment of the stock. If that is done, we are almost certain that the two companies will not be absolutely equal so far as the value of their holdings is concerned. Yet I, for one, want very particularly to conserve the interests of the Canadian National, without having any prejudice against the C.P.R. I certainly should not like a condition to arise whereby this new company would be controlled by anyone other than the Canadian National. There might be equality, but I think we ought to have a little information with regard to that fact.

Hon. Mr. FULLERTON: Our idea is that the voting shall be on an equality. We never would agree to anything else. I was asked a question as to whether the Board of Railway Commissioners has control over rates and services with regard to both telegraphs and express. They have complete control.

Mr. HANBURY: Would you kindly read that?

Hon. Mr. FULLERTON: It comes under the heading of Contracts Limiting Liability of Express Companies, section 365:—

No contract, condition, by-law, regulation, declaration or notice made or given by any company or any person or corporation charging express tolls, impairing, restricting or limiting the liability of such company, person or corporation with respect to the collecting, receiving, caring for or handling of any goods for the purpose of sending, carrying or transporting them by express, or for or in connection with the sending, carrying, transporting or delivery by express of any goods, shall have any force or effect unless first approved by order or regulation of the board.

(2) The board may in any case or by regulation—

(a) determine the extent to which the liability of such company, person or corporation may be so impaired, restricted or limited; and

(b) prescribe the terms and conditions under which goods may be collected, received, cared for or handled for the purpose of sending, carrying or transporting them by express, or under which goods may be sent, carried, transported or delivered by express by any such company, person or corporation.

And the same position applies to telegraph companies.

The CHAIRMAN: Will you explain Mr. Hanbury's question as to the possibility of outside subscriptions?

Hon. Mr. FULLERTON: Our idea is that the stock will be held solely by the two companies. We have no idea of having public subscriptions in any way; it is purely an amalgamation of the express facilities of the two companies.

Hon. Mr. EULER: As the bill is framed, would it be possible to offer the stock for public subscription?

Hon. Mr. FULLERTON: I suppose it would, as the bill is framed.

Hon. Mr. EULER: Don't you think it should be confined to the two companies, and made definite?

Hon. Mr. FULLERTON: It could be made definite, of course.

Hon. Mr. EULER: I think it should be.

Hon. Mr. FULLERTON: We never had the slightest idea of bringing the public in in any way.

Hon. Mr. EULER: I think the bill should say that. You cannot tell what may happen in the future. They may offer some for public subscription and thereby give control to one railway company or the other. Of course, so far as I am concerned, I would not object to the Canadian National securing control.

Mr. POWER: I do not see how you could prevent the C.P.R., which had fifty per cent of the stock, from offering that stock to the public, if it so desired.

Hon. Mr. EULER: This is to prevent their getting control.

Mr. POWER: It would be difficult to prevent any issue of stock to the public because the C.P.R. will always have its portion, and presumably they could do what they liked with it; they could do what they liked with that portion which remained in their treasury; they may issue it in the same way as they issue other stock to their shareholders.

Hon. Mr. EULER: Suppose at the outset you did not issue all the stock, but held a certain amount of it in the treasury, and later on the Company decided to offer that stock for public subscription, the balance of that stock would give control to either the C.P.R. or the C.N.R.

The CHAIRMAN: Voting control.

Hon. Mr. EULER: Exactly; I think that should be provided for.

Mr. BOTHWELL: I should like to ask a question in regard to those two departments, the telegraphs and express departments. Have those two departments been losing the Canadian National and the C.P.R., or have they been paying their way? I think the committee would like to get information in connection with that.

Mr. FAIRWEATHER: That is a very difficult question to answer. Of course, we cannot answer for the Canadian Pacific. These are ancillary services and it entirely depends upon what inter-corporate charges you make as to whether you show them as a profit or loss. For instance, take the express. Un-

doubtedly we make a profit out of the express, if you look upon it as an ancillary service; but if you charge the full overhead charges against the express, I would not say it would make a loss, but it would come very close to it. Now, with regard to the telegraphs, you have a slightly different condition. The railway requires an enormous amount of telegraph services to carry on its own business, and once having set that up, it has the capacity to carry on a commercial business on top of it. Carried on in that way, as a by-product, the telegraph business as a commercial telegraph business, as a by-product, is profitable; but you can see how impossible it is to segregate, for instance, the telegraph line as between railway use and commercial use. You must have a telegraph line in order to operate the railway.

Mr. PRICE: You have your own private lines for that?

Mr. FAIRWEATHER: The pole line is the same. We use the same pole line; that is, the wires on that line are partly exclusively for the railway, and partly joint for commercial and railway use and partly exclusively commercial. It is a very involved situation, really; but if you charged on a full commercial basis, you would then have to credit to your commercial telegraph operations, the value of the railway services rendered. All I can say in regard to the telegraphs is, that viewed as a by-product, our telegraph operations are, naturally, profitable, or we would not be engaged in them.

Hon. Mr. EULER: Don't you make a definite charge for your services to the railway?

Mr. FAIRWEATHER: No; the way we carry that is the expenses of train despatching services and things of that character, operations peculiar to the railway, go into the telegraph expenses of the Canadian National Railways, but against that is credited the commercial revenue.

Hon. Mr. EULER: No revenue is obtained from the railway?

Mr. FAIRWEATHER: No revenue is charged; we do not do that. We do not set up an inter-corporate account of revenue where we would say to the telegraph company, you perform so much service, and therefore, you bill us with that service and we will pay it. All we say to them is, we will pay your expenses, and you give us the services we need.

Hon. Mr. EULER: Do you mean to say the expenses of carrying the telegraph end of the business is charged against the railway, or paid by the railway?

Mr. FAIRWEATHER: They are all in our operating expenses, both revenue and expenses.

Hon. Mr. EULER: For the railways?

Mr. FAIRWEATHER: Both revenue and expenses. It is included in our gross revenue, just the same as passenger fares and the expenses are included in our expense accounts.

Mr. GEARY: In regard to the express end of the business, is not this what happens—I am not very clear on it, but I think this is right—you charge the express car for part of the train haul so much a train mile; you charge for the use of the conductor on the passenger train that carries the express car; you charge for the use of the station, and so on, and you arrive at a loss, or at least, I judge you do, because you asked for an increase of rates.

Mr. FAIRWEATHER: You see sir, the point there is that in setting up a charge for what we call express privileges, for the purposes of rate control and things like that, we naturally would charge against the express, the overhead charges, otherwise we would be setting up a very false position; but when you ask me whether the express is profitable or not, I say I cannot view the express except as part of the railway. It might be put this way, we either have an express or we have no express, as between those two pictures, the having of an

express or not having an express, the express is profitable. The same thing applies in regard to the telegraphs. As between having a commercial telegraph business and not having it, the telegraph business is profitable; but if you charge it with its full portion of overhead, then it is on a narrow margin or actually unprofitable.

Mr. HANBURY: What estimate, if any, has been made of the economies that will be effected by this amalgamation?

Mr. FAIRWEATHER: They are being investigated, naturally. Preliminary estimates have been made, and we are now going over them and checking them up in greater detail, and I should say the thing is in the course of study.

Hon. Mr. MANION: Even if this bill goes through, you may not come to an agreement with the C.P.R.? It may not be carried out. Both companies are studying the question. This bill is to permit you to come to the position where you can unify.

Mr. HANBURY: I think if we are being asked to give consideration to this bill, we should have information as to what economies will be effected, what percentage of savings would come out of the total cost of operations, and particularly what labour is going to be displaced.

Hon. Mr. FULLERTON: It would be impossible to give that information, because we have not arrived at it yet. As I pointed out, the bill is merely an enabling bill. We have to agree first, before anything can be done.

Mr. HANBURY: We are being asked to support a measure the effect of which we do not know.

Hon. Mr. FULLERTON: All I can say is, we naturally would not make an agreement unless we can make substantial economies.

Mr. POWER: Take it from the other angle. Surely the C.P.R. officials and the C.N.R. officials can tell us the number of personnel involved; that is to say, how many persons are employed in the Canadian National Telegraph services, and how many in the Canadian Pacific Telegraph services, how many employees are in the Canadian National Express services, and how many there are in the Canadian Pacific Express services. I think that information should be readily available, and the natural corollary is how many will be displaced?

Hon. Mr. MANION: May I just deal with one point in reply to Mr. Fairweather, and I should like him to listen to this. This is some information given to Mr. Fairweather before the Duff Commission, a copy of which was sent by the chairman to each member of the committee. This is a rather interesting excerpt from the evidence given by Mr. Fairweather at that time.

I read this only yesterday because I expected a discussion on those two bills. I noticed that Mr. Fairweather made an estimate to the Duff commission as to the possible savings, and he said, on the basis of the 1931 traffic, the savings in express by some such methods as this, would be \$500,000, and on the telegraphs, \$600,000, and on a normal traffic basis, between \$600,000 and \$700,000. I mentioned that because it gives a rough estimate. I do not presume Mr. Fairweather went into it very fully; anyway, it is his own estimate, made before the Duff commission.

Mr. FAIRWEATHER: Yes, these are the figures I gave to the Duff commission. They are subject to the same reservation I explained the other day, as I explained it to the commission. I made that estimate, yes.

Mr. BEAUBIER: You undoubtedly took the labour question into consideration, and how many employees would be affected.

Mr. FAIRWEATHER: Every cent is labour. Speaking as an economist, every cent of that eventually is labour.

Hon. Mr. EULER: Maintenance of lines?

Mr. FAIRWEATHER: Every cent of that eventually would appear as labour.

Hon. Mr. MANION: Let me get that clear. You have two offices down the street, and you are paying \$500 a month rent for each of them. If you amalgamated and went into one office, you would save \$500. How do you figure that as a labour cost?

Mr. FAIRWEATHER: It really becomes an academic question with regard to that point. But eventually, it comes down to the definition of wealth and what constitutes wealth.

Hon. Mr. MANION: We are not discussing economics as an abstract question; we are discussing the savings made in the telegraphs and express, and I do not get that. I know something about economics, but I do not see where you figure, if you save \$500 a month in office rent that it is a saving on labour. When Mr. Beaubier speaks about labour, he is talking of the men who are working in the telegraph system.

Mr. HANBURY: That is my interest.

Hon. Mr. EULER: I must agree with the minister on that. It is not just a matter of dollars and cents, it is the number of workingmen.

Mr. GEARY: Material and labour.

Hon. Mr. EULER: I should like to mention this again. I think we should have some provision by which it shall never become possible that the holdings of the Canadian National Railways will be less than 50 per cent of the stock.

Hon. Mr. FULLERTON: A clause to cover that point could easily be added.

Mr. GEARY: Fifty per cent of the voting stock.

Hon. Mr. EULER: The control.

Hon. Mr. FULLERTON: We would never enter into an agreement under any other conditions.

Hon. Mr. EULER: I agree with you, but it is just as well to have the statute say so. I think the statute should provide that the Canadian National will never have less than fifty per cent of the stock.

Hon. Mr. MANION: Since you have brought that up, I agree with you; Mr. Anderson has been trying to draw up a clause in that regard. If it is agreeable to the committee, I should like to do this; he will try to draw a clause that would cover that point, and an amendment could be offered in the House along that line; but I do not think the committee should be put in the position, in view of last year's legislation, of refusing to facilitate co-operation. In view of that, it seems to me that the committee might give unanimous consent to the introduction of those bills this afternoon. I should like to introduce the bill this afternoon, but I have to get the unanimous consent especially if we are going to get it through this year. If the committee gives its unanimous consent, we can have the discussion, and so far as I am concerned, we will endeavour to have all the information that is asked for to-day, and any other information we can get. This is not my bill. These bills are sent to me by Mr. Fullerton and Mr. Beatty—

Hon. Mr. EULER: As minister you have to sponsor them?

Hon. Mr. MANION: That is the point, or have them brought in as a private bill. If it had been earlier in the session, I think I should have insisted that they bring them in as private bills, but it is so late in the session that it is going to be quite difficult to get them through the house this session, unless it is done by the unanimous consent of the house. I think the committee might agree to my introducing them this afternoon, and on the second reading, go into committee of the whole—

Hon. Mr. EULER: I see no objection.

Mr. POWER: I see no objection to their being introduced by unanimous consent.

Hon. Mr. MANION: I should like to present them this afternoon, and after that the bills can be studied in committee.

Hon. Mr. EULER: We cannot speak for the other members of the house.

Hon. Mr. MANION: I appreciate that. We would not need to spend very long on them. It is a matter of time saving, and I should like to introduce them this afternoon.

Mr. HANBURY: I am sorry, but I am still of the opinion that we should ask why these bills should be brought before this special committee rather than the railway committee; because if they are being brought before us, we are supposed to have some information as to their effect before we can bring in a report, and I do not think we should approve of them before we have information.

Hon. Mr. MANION: We are not approving them.

Mr. HANBURY: When they come before the house with unanimous approval?

Hon. Mr. MANION: It is not unanimous approval.

Mr. POWER: Only consent to approve.

Hon. Mr. EULER: I take it you are not going to make a report approving this bill, are you?

Hon. Mr. MANION: I had hoped that there would be unanimous consent, and that could be incorporated in the report. I had not foreseen the opposition of Dr. Price and Mr. Hanbury. Since there is opposition, I do not wish to do that; but in view of the opposition I should like to have the committee agree to my introduction of them as soon as possible. So far as they are concerned, they have no particular objection to their getting unanimous consent to their introduction; otherwise, I have to give 48 hours' notice.

Hon. Mr. EULER: Objection to introduction would only mean a delay of a day or so.

Hon. Mr. MANION: That is all; you are not approving of it in any way, Mr. Hanbury, or Dr. Price, or anybody else.

Mr. HANBURY: My point is this, Mr. Chairman, until we can get all the information that we can on the merits of this bill, I feel justified in taking any means that I have at my disposal.

Hon. Mr. MANION: That is your privilege.

Hon. Mr. EULER: You do not wish to oppose its introduction?

Hon. Mr. MANION: I could have asked for it. I brought it up to the committee because this committee was sitting. Somebody asked why it was not taken before the other committee. The reason is that it was not sitting. This committee happened to be sitting, and I thought I should bring it up here. That is the real reason.

The CHAIRMAN: I do not quite understand. This bill has to be reported by some committee, and I cannot see how the minister can introduce it without the committee reporting it.

Hon. Mr. EULER: No, we do not report it.

Mr. POWER: It is not before this committee at all. We are discussing it only in an academic way.

The CHAIRMAN: That is satisfactory to me.

Mr. HANBURY: Is it the intention to have this bill referred to this committee?

Hon. Mr. MANION: I had not given it any thought. I had rather thought that since the legislation was passed last year, and if I introduced it in the house, I would probably do as I did with the bill last year, I put it before a committee of the whole house, as a matter of time saving. If we had plenty of time, I would have no objection to it going to a committee. We have no more interest in this bill than any other member of the committee.

Hon. Mr. EULER: Was it your intention to introduce it here and let it go to the committee of the whole?

Hon. Mr. MANION: Not here. I had intended to give it second reading, and then bring it before the committee of the whole.

Hon. Mr. EULER: Ask it to be done by unanimous consent, and we could then decide whether we wanted to discuss the merits in committee of the whole, or whether we will bring it before the special committee.

Mr. POWER: Will you need a resolution?

Hon. Mr. MANION: If I do not get unanimous consent, I will need a notice.

Mr. POWER: Unanimous consent that does not do away with the resolution feature of it. Is not this a money bill in some sense? Suppose the physical assets of the Canadian National Railways are not sufficient to make up its share of half the shares of the stock. If that is so, the Canadian National may be obliged to supply that much money to make up the deficiency in physical assets, and therefore it might be a money bill.

Mr. ANDERSON: It would be a company matter, and the question of financing would be dealt with next year by a private bill. There is no money in this at all; it is purely a corporate transaction; and any money the Canadian National may have to spend and have not got, they have to come to parliament and get authority for it. There is no authority in this bill in that regard. It is merely an incorporation of two companies, and does not give any authority otherwise.

Mr. POWER: Don't you think they will be committed to an expenditure of money in the transfer of assets?

Hon. Mr. MANION: I will probably propose introducing it this afternoon. It would then be up to the house. I think we can dispense with any further discussion this morning, but I should like to introduce it this afternoon.

Hon. Mr. EULER: And give it first reading?

Hon. Mr. MANION: Yes.

Hon. Mr. EULER: I wonder if we could have a draft of that clause read?

Mr. ANDERSON: This is a very rough draft, and it would be subject to the approval of the railways. I am suggesting adding a new sub-clause to clause 3, reading as follows:—

3. (2) No part of the capital stock of the company shall be offered, sold or given to the public but may only be acquired or held by the Canadian National Railway Company and the Canadian Pacific Railway Company in addition to the directors of the company and the voting control of the stock of the company shall be equally divided between the Canadian National Railway Company and the Canadian Pacific Railway Company.

Hon. Mr. EULER: That does not exactly meet with my suggestion. I would not mind if the Canadian National had a majority; but I want to guard against the Canadian National ever having less than 50 per cent.

Mr. GEARY: I think that is satisfactory.

Hon. Mr. MANION: The C.P.R. will want to be in exactly the same position.

Hon. Mr. EULER: I suppose so, yes.

Hon. Mr. MANION: If that is satisfactory, we can dispense with any further discussion, and I will probably introduce it this afternoon.

Mr. POWER: May I ask this question: Mr. Fairweather said a few moments ago, it was impossible to distinguish between the profits made on telegraphs in the ordinary operations of the railroad, and the commercial business. Is there not a separate organization for the Canadian National Telegraphs?

Mr. FAIRWEATHER: Yes.

Mr. POWER: What jurisdiction has the vice-president or the president of the Canadian National Telegraphs over train despatches?

Mr. FAIRWEATHER: There is no president of the Canadian National Telegraphs.

Mr. POWER: Vice-president in charge of the Canadian National Telegraphs.

Mr. FAIRWEATHER: He would have nothing whatever to do with the train despatchers, no authority over them at all.

Mr. POWER: None?

Mr. FAIRWEATHER: No, but the maintenance of the wires over which each man sends his message is under his charge.

Mr. POWER: That is under his charge?

Mr. FAIRWEATHER: Yes.

Mr. POWER: And separate accounts are kept as to the maintenance and charged to the Canadian National?

Mr. FAIRWEATHER: The costs of maintenance of telegraph facilities are all kept without regard to whether they are for railway operation or commercial operation. You could make an arbitrary accounting subdivision.

Mr. POWER: The jurisdiction as to personnel only extends over telegraph operators engaged in commercial telegraphs?

Mr. FAIRWEATHER: Partly; but there is another group. We have quite a large number of telegraphers who are engaged in carrying on message business for the railway, distinct from the despatching of trains. For instance, the officers at the various centres are continually sending messages between offices. We have found it efficient to segregate that business from the commercial business as far as transmission goes; there are several operators doing nothing but that. They come under the general manager of telegraph.

Mr. POWER: Though they are engaged only in the business of the operation of the road?

Mr. FAIRWEATHER: Yes.

Mr. POWER: They do not do any commercial business at all?

Mr. FAIRWEATHER: Those particular men do no commercial business at all.

Mr. GEARY: I see in your maintenance of way, operating account, telegraph and telephone \$3,690,000 and in your maintenance of way they charge to telegraph and telephone one million. You aggregate those amounts also in the equipment, I suppose, do you?

Mr. FAIRWEATHER: Yes. Oh, no, maintenance of equipment—maintenance of telegraph equipment would go in maintenance of way and structures. Our equipment maintenance is entirely the rolling stock of the company and the machinery to maintain it.

Mr. GEARY: That would be carried in some other accounts?

Mr. FAIRWEATHER: Yes, it is one of our general accounts.

Hon. Mr. MANION: Would you permit me to make one little statement in view of some statements that were made in the press. You will remember that at our last meeting Mr. Fullerton gave a statement showing that the officers of the railway drawing \$15,000 a year had been reduced from thirty-six in 1930 or 1931 to six at the end of 1933. Since then I have noticed in two or three papers the suggestion—rather an unfair one to my mind to this committee, to parliament and to the government—that there might be an attempt being made to so wipe out the highly paid officers of the Canadian National for the purpose of helping the Canadian Pacific. That is a ridiculous suggestion; but in view of that, however, I took the matter up with Mr. Beatty to learn the number of men on the Canadian Pacific who received over \$15,000 a year, and this morning Mr. Beatty writes me—I will not put the whole letter on record because it is marked personal, but I will give the important paragraph which contains the information required:—

Exclusive of the chairman and president, five officers of this company are in receipt of salaries of \$15,000 or more per year, and that the aggregate of these salaries amounts to \$96,000.

In other words, except for the president and the chairman—I presume the president surely gets more than \$15,000—

Hon. Mr. EULER: I am sure he does.

Hon. Mr. MANION: But if the chairman and president get more than \$15,000 the Canadian Pacific then have seven getting more than \$15,000.

Hon. Mr. EULER: In comparison with five—

Hon. Mr. MANION: —six of the Canadian National. I thought it was a good thing to get that out in view of the attitude taken by, I think, an unreasonable section of the press—not of the political press.

Hon. Mr. EULER: I suppose he does not say what the comparison was between the salaries of the president of the C.P.R. and the former president of the Canadian National?

Mr. BOTHWELL: They received over \$15,000 in 1930. He does not say how many there were then.

Hon. Mr. MANION: No. The statement was made in a financial paper—one which claims to be non-political—that we were proposing to do damage to the Canadian National railways by too much economy.

Hon. Mr. EULER: And have less efficient men?

Hon. Mr. MANION: And incidentally within six inches of this editorial was an article demanding greater economies.

Mr. POWER: You did not ask Mr. Beatty what were the salaries paid to officers of the C.P.R. in 1928 and 1929?

Hon. Mr. MANION: No. I understand that they have been very severely cut down.

Mr. POWER: It might be interesting to find out what they were in 1928 and 1929 when times were good.

Hon. Mr. MANION: I understand they have taken about the same cut as the Canadian National.

Mr. HANBURY: I think I made some remarks with reference to this particular matter at a previous sitting, and I believe that the argument made at that time was that the six officers of the Canadian National railways receiving over \$15,000 received a total of \$117,000, and I pointed out at that time that it was less than 1 per cent of the operating revenue of the Canadian National railways. As a matter of fact, it is considerably less than that; it is approximately .80. I have just received from the Interstate Commerce Commission

a statement which shows the ratio of the aggregate annual salary group to operating revenue. In table 2, reporting division number 1, executive general officers and assistants, class 1 steam railways, including switching and terminal companies, who are not restricted, as you will note, to the five or six senior officers of the railway company—it shows that the ratio to operating services was in 1933, 1.08, in 1932 1.45, and in 1931, 1.30.

Hon. Mr. MANION: Are those percentages?

Mr. HANBURY: Percentages as of the operating revenue. In 1932 it was 1.45. I was just making the comparison with the Canadian National railway. Their percentage to operating revenue is approximately .80. In that connection I also note that—

Hon. Mr. MANION: May I ask one question in that regard? Aren't you going down below a \$15,000 salary?

Mr. HANBURY: I am going down below \$15,000, but there are more included in going below \$15,000 than we are including in our comparison here for the Canadian National railways.

Hon. Mr. MANION: Can you make a comparison?

Mr. HANBURY: I understand, Dr. Manion. But if the comparison was made on the basis of the information we have from the Canadian National railways, it would be, I realize, different; but I am putting this for the purpose of the record. The point I wanted to bring out is this that of these class 1 railroads in the United States, as at March 1, 1933, two of the railroads showed that their senior executives were receiving between \$80,000 and \$90,000 a year, five of them were receiving between \$90,000 and \$100,000, one was receiving between \$100,000 and \$110,000 and one was receiving between \$120,000 and \$130,000 a year.

Hon. Mr. MANION: That is in 1928?

Mr. HANBURY: That is in 1933, and I am putting these figures on record to substantiate the argument I advanced the other day that I do not think the fact that conditions have made it possible to grind these men down where they will take almost any salary rather than lose their positions, in view of the fact that this is a national system, that we have any right to be proud of that fact.

Hon. Mr. MANION: I do not want to get into any argument about it, especially at this stage. I think we have had enough politics.

Mr. HANBURY: I am not talking politics.

Hon. Mr. MANION: I know, but I have a statement made by the railway company itself showing that at the end of 1933, in the Canadian National railway there are forty-three officials receiving over \$10,000. I give this because the figure six over \$15,000 did look low, although it agrees with the Canadian Pacific. I want to put that fact on record associated with the facts I have stated.

Mr. HANBURY: In that connection, Mr. Chairman, the other day I asked Mr. Fairweather if he would procure some figures showing the ratio of the Canadian National in comparison with class 1 railroads as to executive salaries.

Mr. FAIRWEATHER: Well, the question asked was: what relationship to the salaries of the higher paid officials of the C.N.R. bear to the gross revenue, and how does this compare with other class 1 roads.

Answer: The most nearly comparable group of employees including higher paid officials for which statistics are prepared of class 1 roads, is executive

officers and staff assistants. Further, the statistics do not segregate salaries of this group as between railway operation and capital expenditure. With this qualification the comparison for 1933 on various basis is as follows:—

	Class 1	
	U.S. Roads	C.N.R.
Salaries of Executive Officers and staff assistants as to percentage of—		
Gross Revenues.. . . .	2.00	2.16
Operating Expenses.. . . .	2.75	2.24
Total wages paid, including capital expenditures.. . . .	4.41	3.32

Hon. Mr. EULER: Twenty-five per cent below the general average.

Mr. FAIRWEATHER: On that last basis. You see it is difficult to get any single basis that you can say is absolute, but there is the answer, and that is all the answer. On a revenue basis we are a little higher than class 1 roads; on an expense basis we are lower, the reason being that our operating ratio is high due to our lack of traffic density.

Hon. Mr. MANION: May I ask a question in that regard; I think it is better that we should have the point cleared up: are you satisfied that those whom we call at present executive, general officers and assistants are properly cared for and the proper efficiency of the Canadian National railways kept up? Are you satisfied that to-day the Canadian National railways are properly cared for in regard to its executive officers in comparison with other railways?

Hon. Mr. FULLERTON: I am thoroughly satisfied.

Hon. Mr. MANION: I think that should go out because I do not think any impression should go abroad that in some way the Canadian National is being starved in regard to its officers, or in any other way.

Hon. Mr. FULLERTON: I have had no complaints whatever. The officers are loyal, and they are willing to help out all they can. They have accepted the reductions in a good spirit, and they all feel they are helping the country and helping the railroads. There have been no complaints; I have had no complaints—everybody is working efficiently and well and everybody has his heart in the success of the railway.

Mr. HANBURY: Probably I am responsible for most of this discussion. I do not want to give the impression that a man who is getting \$20,000 a year is starving to death, but I am frank to say that the impression I received from Dr. Manion was that the Canadian National railways were cutting deeper than other competitive railways. The figures we have had submitted to us this morning would confirm that statement; but I am simply basing my claim on the statement that under competitive conditions we should not expect to pay our executives less than competing railways if we expect the same efficiency from them.

Hon. Mr. MANION: You say that the figures submitted this morning confirm your attitude? Which figures?

Mr. HANBURY: No, I said, Dr. Manion that the figures submitted this morning confirmed your statement that we have cut deeper than other competitive railways.

Hon. Mr. MANION: What figures have you got that confirm that we cut deeper?

Mr. GEARY: On the executive.

Hon. Mr. EULER: The figures Mr. Fairweather gave.

Hon. Mr. MANION: Mr. Fairweather used one basis when the company was on a better basis. On the other basis—

Hon. Mr. EULER: Which he thought was the fairer basis.

Hon. Mr. MANION: He would.

Mr. HANBURY: May I repeat that the figures given by Mr. Fairweather this morning with regard to ratio to operating was 2·75 for class 1 roads and 2·24 for Canadian National.

Mr. FAIRWEATHER: That was expenses.

Mr. HANBURY: And then with regard to total wages paid the ratio is 4·41 for class A roads and 3·32 for the Canadian National.

Hon. Mr. MANION: I did not hear those figures.

Mr. GEARY: Yes.

Mr. FAIRWEATHER: I will repeat them, sir. I say again it is extremely difficult to find any single basis of comparison which is sound, but on a gross revenue basis class 1 roads show 2 per cent and C.N.R. 2·16 per cent.

Hon. Mr. MANION: That is higher than the percentage in the revenue of the C.P.R.

Mr. FAIRWEATHER: On operating expenses, class 1 roads 2·75 per cent, C.N.R. 2·24. Now, the explanation of that is that our operating ratio is a good deal higher than the average class 1 road and that again is due to the fact chiefly that we have less density of traffic; we have greater overhead to do the same amount of business proportionately than they have. On the total wages paid, including capital expenditures, class 1 roads 4·41 per cent, Canadian National 3·32 per cent.

Hon. Mr. MANION: I did not hear the last figures, but I would not admit from those figures that the Canadian National was in any way being starved—I do not mean literally starved—in regard to salaries paid or in regard to executive services.

Mr. HANBURY: Would you suggest that the salaries of these executives are comparable with other class 1 railroads throughout America?

Hon. Mr. MANION: Mr. Hanbury, according to the best information I could get, yes.

Mr. HANBURY: As a matter of fact, that was not the point I was coming to, because Dr. Manion has been making the statement that we have done much better.

Hon. Mr. MANION: Now, Mr. Hanbury is again mixing up statements in regard to this. What I stated on other occasions—not here, but on other occasions is that we did cut down by some \$2,000,000 unnecessary officers who could be eliminated without interfering in the efficiency of the road, and I adhere to that statement. That does not affect these figures. At the present time my submission is that the Canadian National is treating its officers exactly the same as other class A roads, and I do submit at the same time—and I am not saying this for political effect—that three years ago or four years ago the Canadian National had far too many highly paid officers who were not earning their money.

Mr. HANBURY: That was evidently the condition in every class 1 railroad.

Hon. Mr. MANION: I am not going to argue about other roads.

Mr. HANBURY: I am not arguing that point; I am arguing the comparison.

Hon. Mr. EULER: I think what you want to do with regard to salaries is to keep a proper morale among the officials so that they will feel satisfied.

Hon. Mr. FULLERTON: That is the whole point.

Hon. Mr. EULER: And in addition to that to make reasonably certain that the wages we pay are not so low that our men will be taken away by competitive roads.

Mr. HANBURY: Mr. Chairman, there was another matter I brought up the other day and that was with regard to the question of the number of employees over pensionable age maintained on the payroll. I would like that information.

Hon. Mr. FULLERTON: The question asked is: what number of men are now in the service who are eligible for pensioning and what would their pensions amount to. The answer is 682 men and the amount is \$413,888.

Mr. PRICE: Which pension is that? Is that the Canadian National pension?

Hon. Mr. FULLERTON: All the pensions under all plans.

Mr. HANBURY: Mr. Chairman, in connection with that statement I must take exception to maintaining these men on the National system owned by the government. I am making a distinction. What the Canadian Pacific does is a matter between them and their employees, but this is, after all, a government owned railway, and we are retaining 682 men on the payroll so that there are 682 men who should be on the payroll and are not there. I think that the purpose of this parliament and of the people of Canada in establishing and maintaining a scheme to assist pensions is on the basis and on the theory that when these men have reached a pensionable age they will remove themselves or be removed in order that others may take their place. I am frankly critical of maintaining these men on the payroll, and I would like to have some assurance that the practice will be discontinued.

Hon. Mr. FULLERTON: If I may be allowed to make a statement. Our duty as I conceive it is to make economies—to save money to the country and to the railway. We may have a man who is efficient and has special qualifications for his position. If we let him out we must pay him a pension and we must employ a new man and pay him full wages. As I conceive it, if the man is efficient, if he is able to carry out his duties we should continue him in the service. If the position is to be abolished then, of course, we put him on pension; but that is the present policy of the railroad. If that policy is to be different, of course, that is another question; but our whole idea—at least, my whole idea is to save money, and that is the only reason we continue these men.

Mr. GEARY: And to maintain efficiency.

Hon. Mr. FULLERTON: Yes. Ordinarily I would say that in a sense it might be right to pension every man at 65, and yet I can see many cases where we have men of peculiar qualifications, exceptionally good men who should be continued, it would be a mistake for the railway to let them out as long as they are efficient, healthy and able to do their job.

Hon. Mr. MANION: If you let them out you have to pay two salaries.

Hon. Mr. FULLERTON: Yes, two salaries; but under present conditions I conceive it to be our duty to save wherever we can, and that is the whole object of our present policy.

Mr. HANBURY: Mr. Chairman, I do not wish the chairman of the board to think I am criticizing the trustees of the board. They were put in there for the purpose of effecting economies; but I am going to point out to him that we are a committee of parliament and I believe we are here to give our opinions and to give him, if possible, guidance, recognizing the authority he has in this matter; and I believe it is our duty to give him guidance. I am not going to argue that there should be no exceptions to a rule that a man should be retired after he is 65 years of age; I appreciate the economies of \$413,000 a year which he is effecting; but what I am claiming is that they are not real economies from the national standpoint. I am not talking of the National railways; I am talking of the people of Canada; and my suggestion to him is this, that the people of Canada through their pensions scheme and through the assistance they are giving to the Canadian National railway in their pensions are asking

him to carry out the intent which is that men who reach the age of 65, and there is no particular or special reason why they should be maintained in the service, should be retired so that other men who are to-day walking the streets and are being maintained by the people of Canada may have an opportunity to gain employment for themselves.

Mr. PRICE: Mr. Chairman, I have listened with considerable interest to what Mr. Hanbury has said, and I was just wondering if it had occurred to him that there are some of these men who are over 65 years of age who wish to be retained.

Mr. HANBURY: They all do.

Mr. PRICE: I do not know whether he would be a better judge as to whether they should be retained than the management of the road. As Mr. Fullerton said, there are instances where men reach an older age than 65, are capable men and the railway may wish to retain them. I am somewhat familiar with railway matters, as I live in a railway centre, and I do not think there are many instances where men have asked for retirement when they have not got it when they are fully entitled to it.

While I am on that subject there is a very unfortunate position that some men who, through some small technicality, are kept out of their position. I know of several instances where there has been a slight break as it is termed in the service—it may be a month or two—and it has caused that employee some trouble. I have known of stenographers—one in particular—who was kept out of a pension on account of some technicality. I know of instances where men have served the required time and who have not reported back inside of one year and the management have taken the ground that they automatically dismiss themselves. Even if on sick leave, they automatically dismiss themselves, and their case cannot be taken up. Now, on the other hand, there is another situation: we have instances where pensions are granted where there is no rule or regulation for the granting of those pensions. We have cases of men with breaks in their service, and if they happen to have the favour of the management of the railroad in certain quarters and a recommendation is made, these men are given a pension. It may be small, but they are given a pension. Now, they are not entitled to pension through the Intercolonial and Prince Edward Island provident fund; they are not entitled to the pension through the Canadian National Railways superannuation fund, but they are given pensions. Is that not a fact? That is going on while there are a number, as I say, who through some slight technicality are kept out of their pension. That is unfortunate. I do not know what is the policy of the management in that regard, whether that is to continue; but it certainly gives wide powers where the management have that privilege. There are cases where you have a man in the service whom they think is entitled to a pension although he is not entitled to one, and where he has had breaks in his service, yet he is given a pension.

Hon. Mr. FULLERTON: I may say that we have certain pension rules that have been laid down, carefully considered and passed. Those pension rules are adhered to strictly. Any question of a break in a man's service is considered by a committee that considers each case carefully. After a case is dealt with it has to go before the board and all the facts are threshed out. There is no suggestion of favouritism. I do not know—I cannot speak for what happened before—but as far as I know there is no question of favouring any man. We do this; we occasionally grant a small gratuity—not a pension by any means—but there are some cases where, for instance, a man is killed and his wife and family are left in very poor circumstances. That has been done and is done in hard cases. But as far as the pension rules are concerned, as far as I know they are strictly adhered to.

Mr. PRICE: Mr. Chairman, it might not properly be termed a pension, but we might call it a gratuity or something, but the railway does contribute to these men. That cannot be denied. That has been done, and I have got the proof of it right here.

Mr. POWER: Let us have it.

Mr. PRICE: It has been done, and it is unfortunate. I have nothing against those who are getting it; I am glad they are getting the money; but there are cases of men who through some slight error of some description—a little shortage of time—that are kept out of it.

Hon. Mr. FULLERTON: I perhaps made too wide a statement. I said that gratuities were only granted for a month or so. As a matter of fact, sometimes in hard cases a gratuity of \$25 or \$30 a month is granted for a limited period—generally one year.

Mr. PRICE: Mr. Chairman, where is the excuse for giving the money to some and not to others. There are hard cases all through. We find none of these—contributions I may term them—going to any of the lower men, it is usually an official.

Hon. Mr. FULLERTON: You are quite mistaken about that.

Mr. PRICE: That is according to the record I have here.

Hon. Mr. MANION: In view of the discussion on pensions, I think it would be well to put on the record, for the information of the committee, what it is costing the Canadian National Railways for pensions at the present time. According to the figures handed me, the total expenses of the C.N.R. for pensions last year was \$3,080,011.86. The C.N.R. paid out in pensions last year, over \$3,000,000. I think it is a good thing to have that on the record.

Mr. PRICE: Have we the amount of what is paid out in what might be termed the regular payments; that is, paid out in gratuities?

Hon. Mr. MANION: That is included in this figure.

Mr. HANBURY: Have you the number for the year?

Hon. Mr. MANION: Yes; the number receiving pensions from the C.N.R. is 3,250; the number receiving pensions from the I.C.R. and the P.E.I. fund is 1,661, a total of 4,911, and the total payments amounted to \$3,080,011.86.

Mr. HANBURY: To those should be added the 682 who are pensionable, but are not receiving their pensions.

Hon. Mr. MANION: They are receiving their salary.

Mr. HANBURY: Yes.

Hon. Mr. EULER: If this discussion is finished, I should like to bring up a matter which I think is of some importance. The Chairman of the board said a moment ago that he regards it his duty to save as much money as possible for the railway. With that I am in full accord; but I am also sure that it is not the feeling of the chairman in trying to exercise economies that either a moral or legal injustice be done to anyone. I should like to discuss for a moment a matter which I have discussed in the house on a number of cases, and that is in regard to the debenture holders of what was known as the Toronto and Suburban Railway, and which I think later became known as Canadian National Electric Railways.

Hon. Mr. MANION: Guelph Suburban.

Hon. Mr. EULER: A line that runs from Guelph to Toronto, and which now abandoned. Under the old Mackenzie and Mann regime, \$3,000,000 was obtained from stock debenture holders. The line was later abandoned, and now the proposal is made that the bondholders be paid off at 25 cents on the dollar. I think there is an amount in the estimates—to pay off the bondholders on that basis. I have always contended this, that the people who subscribed for

and bought those bonds, paid to the railways 100 cents on the dollar. They loaned to those railways, \$2,000,000 or more. That was an honest debt incurred by the Toronto and Suburban Railway. That railway became the property of the Canadian National Railways, and my contention is that the Canadian National or the Canadian people, if you like, are now in exactly the same position so far as liability is concerned, as were the original Mackenzie and Mann owners of the road. I may say, by the way, that some years ago the city of Toronto passed a by-law providing for the purchase of the Toronto and Suburban railway. It was not carried out. If it had been accepted by the railways, these bondholders would have received 100 cents on the dollar. The contention is now made—I think it was made by the government—and I want to say I am not talking politics in this; just ordinary plain justice. The contention made that since the security has practically disappeared, because the line has been abandoned,—it is just a streak of rust now between Toronto and Guelph, and I see it every time as I pass along—that the liability has practically disappeared. I think the government or the railways have taken the attitude if the bondholders are not satisfied with that, they can take the road. Of course, that is absurd. There is practically no value from a salvage point of view in the road at all.

Hon. Mr. MANION: Will you permit me to clear up one point? Any statements made, so far as the government is concerned, are statements really of the management, because the Canadian National Railways have handled it entirely; it is not a government proposition.

Hon. Mr. EULER: I will put it right up to the management. My contention is, even if the security has disappeared, the obligation has not disappeared. If I get a man to loan me \$10,000 on a property, for which a mortgage is given, and if the value of the property sinks to \$5,000, it does not relieve me from my obligation of \$10,000. The debt was honestly incurred, and should be honestly paid. It seems to me that the railway board or the government or the people of Canada can ill afford to take advantage of the people who honestly put their money into the road, a hundred cents on the dollar, and then ask them to accept 25 cents on the dollar.

I am told that about half of those bonds were owned in England, and the other half in Canada, and that the English bondholders for years have been trying to get full payment of the bonds, but they finally agreed to accept 25 cents on the dollar. The Canadian bondholders are not satisfied with that. I have a great deal of sympathy with them, perhaps more because of the fact that in my own district, a great many people are holders of those bonds. I want to protest at the Canadian government or the Canadian National Railways taking advantage of the law—and I have my doubts about the legal end of the suit; I think Judge Fullerton is a much better judge of that than I am—and taking advantage of people who honestly put their money into it and accepted those bonds and now under necessity, being obliged to accept 25 cents on the dollar from the Canadian people. I say the Canadian people and the Canadian National Railways ought to recognize the full amount of the liabilities to those who advanced their money to them by way of loan, and for which they hold debentures.

Mr. GEARY: Grand Trunk Pacific stock too?

Hon. Mr. EULER: I am not speaking of stock.

Hon. Mr. MANION: Debenture stock.

Hon. Mr. EULER: Holders of stock have to take their chance, while bondholders are creditors. They loaned their money to the company. The man who buys stock is an owner of the company and has to take his loss when the assets disappear, but a man who advances his money on a bond is a creditor.

Hon. Mr. MANION: This was $4\frac{1}{2}$ per cent debenture stock.

Hon. Mr. EULER: A debenture is, in effect, a bond.

Hon. Mr. MANION: They call it a stock.

Hon. Mr. EULER: After the road was abandoned, the Canadian National Railways continued for some time to pay the interest on the debenture stock. The mere fact they were paying interest shows it was a loan, not a stock. Stock gets its revenue by way of dividends which are supposed to be made out of profit. That is the point I wanted to make. Then, I should like to quote from one of the Toronto papers which says that the Canadian bondholders of this line have issued a writ in the Supreme Court of Ontario against the Canadian National Railways, Canadian Northern Railways, and the British Empire Trust Company, and so on, with regard to this offer of 25 cents on the dollar. Further down it says:—

Last July 25, Canadian debenture holders received a notice calling a meeting in London, England, for July 27th, to consider accepting 25 cents on the dollar in full of claim. Canadian shareholders, it is said, were later told that the offer would have to be accepted or they would receive nothing, and it is claimed many debenture holders interested in the present action sent their proxies under misapprehension.

In the proposed settlement, the English committee are being paid \$18,000 for services but no Canadian debenture holder was a member, nor did any information come from them that any settlement was being discussed, the lawyers assert.

The Canadian debenture holders are asking that the whole matter be reopened and representations are being made to Ottawa that no action be taken until further information is available.

These are the two things I wanted to mention. First, I think it is utterly wrong, and unmoral—I was almost going to say immoral—for the Canadian government to try, under the guise of it not being a legal liability, to escape—

Hon. Mr. MANION: Would you mind leaving the government out of it? It is the Canadian National. The government did not guarantee the bondholders in any way, shape or form.

Hon. Mr. EULER: They are Canadian government owned railways. I would say to you, sir, that the Canadian government has some responsibility to those bondholders despite the fact the railways are supposed to be entirely under the control of a commission.

Hon. Mr. MANION: May I explain my point? The Canadian government never in any way, shape or form guaranteed those bonds. The Canadian government never got into the deal that was made. The only way we have ever mentioned it is by way of explanation and answers to questions that arose from some members on the other side of the house or our side who asked us about it. We were not in the deal at all; it was a business deal with the Canadian National railways and the debenture stockholders in England, who represented, I understand, a majority of the stockholders, over 75 per cent. The only point I am making is this: I do not think the impression should go out that the Canadian government have refused to pay anyone in England, because the Canadian government did not get into the picture directly.

Hon. Mr. EULER: I will place the responsibility on Canada. I these bondholders in England, and I believe they are 75 per cent of the bondholders, which is the number necessary to carry the deal through, accepted 25 cents on the dollar, I think they did it under pressure; they feared they would lose every cent, and they would sooner take 25 cents than get nothing at all. The railway is not operating at all; it is absolutely worthless and valueless. It

does not seem to be in harmony with the principle of fair dealing, to give these people 25 cents, where they had honestly loaned 100 cents on the dollar to the Canadian National Railways; because I say the Canadian National Railways are into this; they are in the same position as Mackenzie and Mann were originally; and I want to protest against this. It is a human principle, that when you borrow money you have to pay back the full amount that you borrowed, whether security, interest, or business interests. That is the one point. The second point is this: I should like to know if this statement is true, that the executive of the bondholders living in Great Britain got \$18,000 out of the Canadian National funds. If they did, then there might be a real compelling reason for them to accept this settlement of 25 cents on the dollar. They themselves might get an amount equal to 100 cents on the dollar, far more than the bondholders would get there. I should like to know if that is true. Did they receive that money, and did it come out of the Canadian National account. I should like to have some light on that matter.

Hon. Mr. FULLERTON: Well, so far as the trustees are concerned, that is one thing they cannot be blamed for, because this matter was dealt with, considered and decided, before we took office. I know about it in a general way, although I have not given it very much attention, because I thought it was a matter that was concluded. I understand that this money was advanced to the Toronto Suburban many years ago, long before the Canadian National was formed. Later on, I understand, the Canadian National did pay interest on the bonds for a number of years, but they stopped paying that interest later. I understand that an action was brought in England by a bondholder named Bernard, or some such name as that, and later on a meeting of the bondholders was held, and some agreement was made whereby they would pay—the bondholders themselves—the expenses of the litigation themselves. I may not be stating the facts accurately, but that is my impression of the arrangement.

Hon. Mr. EULER: The bondholders paid the expenses?

Hon. Mr. FULLERTON: Yes, that \$18,000 is a matter between the bondholders in England.

Hon. Mr. EULER: It certainly should be.

Hon. Mr. FULLERTON: That is the way I understand it is; but so far as the policy of settling those bonds in full or paying 25 per cent is concerned, that is a question that has never been considered by the present trustees, because I assumed the matter was settled and disposed of before we came in. It is perfectly true that there was an item put in our estimate for an amount, but that is more or less formal to cover the settlement that had been made. I have not gone into the matter very closely; I cannot give a detailed statement of the facts, but that is my understanding of it in a general way.

Hon. Mr. MANION: Mr. Labelle was one of the old directors, as was Colonel Smart, and I should like Mr. Labelle to make a statement on behalf of the Canadian National.

Mr. LABELLE: I regret I have not the file of the legal department with me. My memory is that an amount such as Mr. Euler mentioned was submitted to the bondholders at the time, and that amount was agreed on as the amount to be paid to some others for legal fees and expenses to put the transaction through.

Hon. Mr. EULER: I want to get it clear whether the \$18,000 mentioned here, came out of the funds of the railway company or the bondholders themselves.

Mr. LABELLE: If I remember correctly, it was taken out of the 25 per cent, but I am not sure just now, I would rather have the file here to give the explanation. I know that we want to put it through ourselves that the bondholders knew

of the payments, and it was embodied in the document prepared and submitted to us.

Hon. Mr. EULER: Mr. Chairman, of course that does not touch the vital point as to the responsibilities of the railway to pay these bonds, merely because the railway is in a position, perhaps legally, and I am saying "only perhaps"—perhaps legally they do not have to pay those bonds in full, yet they continued to pay interest on them. I say that in ordinary human decency and moral obligations, that it is beneath the dignity of the Canadian National Railways, who, after all are representing the Canadian Government to give to these people any less than the amount advanced to the railways. That is my point.

The CHAIRMAN: Following Mr. Euler's argument, I had a letter a short time ago from a man who told me he was a bondholder of the Inverness railroad, which is a railway that is now being operated, I understand, by the Canadian National. How he came into possession of it, I do not know; but I do know this, that this man and others, bondholders, who loaned money in the same way to the Inverness Railway, when it was part of the Mackenzie and Mann railway, and is now a part of the Canadian National railways. But they are not being offered even 25 per cent on their bonds.

Hon. Mr. EULER: Do you think that is right?

The CHAIRMAN: No; but at the same time, that railway was taken over by the Canadian National, the Gaspé railway was taken over, and my friend Mr. Euler had knowledge of that. Those bondholders were paid 50 cents on the dollar, but the Inverness railway bondholders were paid nothing at all. I do not know how they managed to do the flim-flam, but somebody did it and that is what happened.

Hon. Mr. EULER: I was not going to use so strong a term in this case.

The CHAIRMAN: It may be wrong for me to use that term, but the fact is this, that that road is now being operated, as I understand, by the railway company. It is not like your road, the line of rust, it is being operated, because it reaches a coal mine. That is my information. The railroad has that line without being liable for the bonds; the bondholders are nowhere.

Mr. POWER: Are you sure we did not pay any money for the Inverness road?

The CHAIRMAN: I am quite sure. There was nothing paid to the bondholders at all. The matter was in the hands of the bondholders, and there may have been some legal fees in connection with investigations into the matter. I am not sure of that, because I do not know what the history is.

Hon. Mr. EULER: If the bondholders had arranged this voluntarily I would not say anything. I don't doubt that they understood they could not get any more and they decided that they would sooner take half a loaf than no bread, although in this case it is only a quarter of a loaf, 25 cents on a dollar; and for that reason it does not look to me like a square deal.

Hon. Mr. MANION: May I just say a word? From memory I repeat that the government had nothing whatever to do with it. I remember very very distinctly the late management putting the subject before me, and telling me the situation. They pointed out that the Guelph Suburban railway had not been earning its interest for some years. It is true, as Mr. Euler says, that the Canadian National continued to pay the interest; but the Canadian National had got into a financial position where they felt they could not continue to pay the interest. As a matter of fact, the \$100,000 a year was really not earned; they claimed they were not earning any part of it. In fact, they were losing on operations.

Hon. Mr. EULER: That does not touch the point.

Hon. Mr. MANION: They were losing on operations, and they discontinued paying the interest. Incidentally, it was the late management that discontinued

paying the interest. The people then complained to us. It was brought up in the House at one time by Mr. Euler, and I believe, on one occasion, by the late Mr. Cayley and one or two others.

Mr. STEWART: Also Mr. Porteous.

Hon. Mr. MANION: Yes, that is right. Then the majority of those bondholders—they are not really bondholders, debenture stock $4\frac{1}{2}$ per cent, if you like; they had a mortgage on this road—the railway offered to let them take over the road; but as it had no operating value they did not wish to do it. The Canadian National officials and a sufficient majority of those shareholders in England to make it legal, got together and an agreement was arrived at for accepting 25 cents on the dollar. That is the whole picture. The moral obligation, of course, is an argumentative thing. I am as concerned with the widows and orphans in our own country as I am with others, and I think they should be given a good deal of consideration. The government cannot be blamed for those debenture stocks, as they were not a guarantor, neither was the Canadian National Railways, according to my information.

Hon. Mr. EULER: They paid the interest.

Hon. Mr. MANION: They took it over from Mackenzie and Mann. I think it is a very argumentative point with all due respect, if in any shape, manner or form the Canadian government or the Canadian National Railways, for that matter, or the Canadian people, are in any way morally bound to pay more than what the satisfactory arrangement calls for. This amount was satisfactorily arrived at by arrangement with the debenture stock holders in England, and the management of the railway. I only say that because I do not think the definite statement should go out that in some way the people of Canada are morally obligated in this matter. I have looked into it very thoroughly, and I do not think they are morally obligated. If so they are morally obligated in a lot of other matters such as Mr. Geary mentioned a while ago. Some of the old Grand Trunk stockholders over in England think we are morally obligated to pay them.

Hon. Mr. EULER: There is a difference between stock and bonds.

Mr. GEARY: Most bonds have as security, the property.

Hon. Mr. EULER: That is only security. If the security disappears, the obligation does not disappear; that is my contention. And the fact the railways did not pay them, I do not think enters into the situation at all. If I am able to borrow \$25,000 from anybody, to go into business, and that business fails, and the money disappears, that does not discharge my obligation unless I go into bankruptcy.

Mr. POWER: May I ask you, Mr. Chairman, if the supplementary estimates passed in the House some days ago, in regard to the Moncton and Buctouche Railway, was the payment of some obligations in that connection?

Hon. Mr. MANION: No, not at all.

Mr. POWER: Before that?

Hon. Mr. MANION: In 1918. I was quite ready to explain that in the House, but nobody asked a question about it. As a matter of fact, everybody was so anxious to get the estimates through, nobody bothered about it.

Mr. HANBURY: Everybody is anxious to get through except the government.

Hon. Mr. MANION: I do not think you can say we are not anxious to get through. I am speaking from memory, but I think the Moncton and Buctouche Railway was bought in 1918 by the Canadian government for a fixed sum of money, plus 5 per cent interest, until the payment was made. Unfortunately the Moncton and Buctouche Railway could not give a clear title for the property until within the last few months, and according to the agreement, and supported

by the Justice Department, which I had with me in the House, the other day, until the physical payment was made, the government was responsible for the 5 per cent interest under that agreement of 1918. That only happened because they were not able to give a clear discharge to the property. That is the whole story.

Mr. POWER: I have some recollection to the effect that they were bonds of that railway, and the bondholders did not receive any money. Ten years ago, someone came to my office with these bonds of the Moncton and Buctouche Railway and said he had never been paid anything on them.

Hon. Mr. MANION: That is true. They were not paid anything on the agreement at all until they were taken over and having consented to that plan, the Moncton and Buctouche people could not give a clear title, and until they could, no payment could be made.

Hon. Mr. EULER: I should like to ask the management of the C.N.R. if they would not give consideration to this. After all, they are completing the deal, and I should like to ask them if they would not reconsider the whole situation both from the point of view of the legal situation and the moral responsibility to those people who have been offered 25 cents on the dollar.

Mr. LABELLE: As far as the legal situation is concerned, I understand the legal department of the railways and the trustees approached the committee representing the bondholders, and a settlement was made on the basis that has been indicated here. At that time, the bonds were selling to the public at around \$50 to \$60.

Hon. Mr. MANION: They were down to \$36 even when they were paying interest.

Hon. Mr. EULER: This is not a sort of compassionate allowance not justified by conditions?

Mr. LABELLE: No.

Mr. GEARY: Having regard to the assets, I am not adverse to a compassionate allowance being paid to these people or any others. I have no doubt there be many in my constituency also who are affected, but I do not happen to know that.

Hon. Mr. MANION: I have had letters from your constituents.

Mr. GEARY: It is a question of whether we should do it, and what precedent we are establishing. All of us are quite ready to make a compassionate allowance to anybody to whom we can justly do it.

Hon. Mr. EULER: I would object to calling it a compassionate allowance.

Mr. GEARY: It is either that or a legal claim.

Mr. HANBURY: Mr. Chairman, as it is getting close to one o'clock, and in view of the fact that this committee may be making a report very soon, possibly to-day, I wish to give notice to the committee of some recommendations that I wish it to consider. In forming its report, I should like the committee to incorporate the following motions:

This committee recommends:—

(1) Against unification of the Canadian Pacific Railway and the Canadian National Railways, as the interests of the Canadian people will be served best by competition.

(2) Notwithstanding any recommendation to the contrary that may be contained in the report of the Duff Commission, that it is in the public interest to have the accounts and estimates of the C.N.R. and the C.G.M.M. submitted to a committee of the House for revision annually.

(3) That until the government is relieved of all liability under the guarantee given, the accounts and estimates of the Canadian Pacific

Railway and their subsidiary companies be submitted to a committee of the House for revision annually.

Mr. PRICE: Before we adjourn, I believe Mr. Fullerton had a statement made concerning the repairs to the car ferry at Charlottetown. I would like to have the figures in connection with that—the first tenders and the second tenders that were submitted.

Hon. Mr. FULLERTON: It has not been the practice in the past to give out the figures—to give out the amount of different tenders. I am in the hands of the committee; if the committee insist on it I must do as the committee says. I can see no object or useful purpose to be served in giving the figures.

The CHAIRMAN: Does that apply to present tenders?

Hon. Mr. FULLERTON: Yes, present tenders.

The CHAIRMAN: I would suggest that any request for such information would be strictly out of order, because I for one take the ground that we have no right to get any information respecting the railway company concerning the present year's business. There has always been the rule, and I would consider such a request strictly out of order.

Mr. PRICE: All I can say is that information of this nature has been given before and no harm has been done. It has not been advertised through the press. I simply asked for the figures—the tenders that were first submitted in connection with the repairs to the car ferry at Charlottetown and the second tenders that were submitted.

Hon. Mr. MANION: I presume that is for the management to consider, and at the next meeting they can give us an answer. I do not say they will give the figures, but the answer.

Hon. Mr. EULER: I do not know whether the chairman will think his ruling covers my request, but I would like to have a statement at the next meeting whether the \$18,000, or whatever the sum may have been that was paid to the executive of the English bondholders in connection with the Toronto Suburban—whether any of that and how much came out of the fund to the Canadian National Railways.

The CHAIRMAN: That question, as far as I am concerned, would be perfectly in order.

Mr. LABELLE: There is nothing paid yet, because in the agreement they said that it must be approved by the legal representative of the Canadian National Railways, and that 75 per cent of the bondholders must approve.

Hon. Mr. EULER: And whether the arrangement that is contemplated—and I suppose the details are settled—whether anything has been paid or whether it is contemplated paying any money out of the Canadian National treasury?

Hon. Mr. MANION: In addition to the 25 cents.

Hon. Mr. FULLERTON: Yes, we will give you that information.

The CHAIRMAN: I would consider that to be perfectly in order. I cannot agree with Mr. Price. If the management wish to give him such information as he asks for I think it would probably be in the interest of the road, but I am not going to consider a question of that kind as being in our rights now.

The committee adjourned to meet at 4 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we will proceed.

Mr. HANBURY: I would like to secure from the chairman the information whether you have any record of the amount of overtime paid to employees?

Hon. Mr. FULLERTON: We have it, but of course, it is all over the system.

Mr. HANBURY: Can you give any estimate of what percentage of the total it would amount to?

Mr. HUNGERFORD: With employees who work by the hour it would be small; train service employees naturally run into overtime according to the length of their run.

Mr. HANBURY: Generally speaking, the policy of the company is not to encourage overtime?

Mr. HUNGERFORD: Quite.

Sir EUGENE Fiset: I asked at the last meeting if I could possibly get a report on the expense of the train between Campbellton and Matapedia.

Hon. Mr. FULLERTON: Yes, I have it here.

Question by Sir Eugene Fiset: I would like to know exactly the operating expenses between Matapedia and Campbellton since the terminal has been abandoned. I would like to know the expenses per year since 1930, and also what it is costing the railway at the present time to transfer the mail from those two points?

Answer to train terminal operation: The operating expenses in question between Matapedia and Campbellton form part of the operating expenses between Campbellton and New Carlisle. It is therefore impossible to state precisely what they amount to. A mileage pro-rate of these train operating expenses between Matapedia and Campbellton amounted to \$6,600 for 1932 and \$6,300 for 1933. The closing of Matapedia as a terminal, however, led to substantial economies in terminal expenses so that notwithstanding the additional twelve miles run by each train, there is a net economy of at least \$14,000 per year.

Answer as to transfer of mail: The transfer of mail at Campbellton to and from points on the Gaspé lines is incidental to other station work and no increase in staff was occasioned. The changed method of operation has resulted in a saving in mail transfer at Matapedia of \$720 per year.

Mr. HANBURY: In previous years there has been some discussion about the ownership of the Rail and River Coal Company in Ohio. I was wondering whether the Canadian National still owned it and are operating it or whether they are trying to dispose of it.

Hon. Mr. FULLERTON: No, we are not disposing of it; we are still operating it.

Mr. HANBURY: Are there negotiations for the disposal of it?

Hon. Mr. FULLERTON: It is the policy of the company to continue the operation.

Mr. HANBURY: There is another question, and that is in connection with the basis for carrying the mails between the C.P.R. and C.N.R. Could you give me any information in that respect?

Hon. Mr. FULLERTON: There are standard rates agreed upon between the railways and the Post Office Department, and the Post Office Department awards contracts.

Mr. HANBURY: What is the basis for apportioning the carrying of the mail?

Hon. Mr. FULLERTON: That is entirely in the hands of the Post Office department.

Mr. POWER: Probably the minister could tell us?

Hon. Mr. MANION: That has been asked in the House. The railway here would not have that. We can get that from the government. I do not see any objection to giving it.

Mr. POWER: Is there not a policy involved?

Hon. Mr. MANION: I have never seen it on record before. I do not think so.

Mr. POWER: Have they always tried to distribute it fairly as between the two companies?

Hon. Mr. MANION: This statement is subject to correction, but I remember the question being discussed some years ago when you and I were here, and it was shown at that time, it seems to me, that the C.P.R. did get a little more than the C.N.R., and the answer was that the C.P.R. having more through trains and having much the older service, throughout certain sections the C.P.R. could get it where the C.N.R. could not. That is what I remember in a rough way. But as far as the Canadian National people are concerned, they would know their own, but they would not know the C.P.R. figures. There has been a question on the order paper asking for the information; I do not know whether the information has been given.

Now, we have been waiting for Mr. Euler before dealing with the Toronto Suburban Railway, but I am informed he is not coming in. I would like the officers to deal with that matter. There is some information they have in reply to some of the statements made this morning which should be made public.

Hon. Mr. FULLERTON: I have in my hand the circular that was sent out by the British Empire Trust Company Limited to the bondholders bearing date 15th July, 1933. It reads as follows:—

THE BRITISH EMPIRE TRUST COMPANY LIMITED

REGISTERED OFFICES:—

STAFFORD HOUSE,
14-20 King William Street,
LONDON, E.C. 4, 15th July, 1933.

To the Holders of

Canadian National Electric Railways

(Successor by amalgamation to Toronto Suburban Railway Company,
4½ per cent First Mortgage Debenture Stock).

DEAR SIR (OR MADAM),—

Since the default by the above railway company in the payment of your debenture interest on 15th July, 1931, we, as your trustees, have made unremitting efforts through our Canadian directors and by personal and written representations to the Canadian National Railways, the Prime Minister of Canada, and the Minister of Railways for some further and favourable consideration which would mitigate the loss resulting from the present position.

As the result of our representations, we as trustees, have now received the letter from the Canadian National Railways dated 4th May, 1933, a copy of which appears at the end of this circular. It will be noted that the letter suggests settlement by a cash payment in sterling by the Canadian National Railways of 25 per cent of the nominal amount of the debenture stock outstanding, i.e., £25 cash in full and final settlement of all claims in respect of each £100 of debenture stock. The letter also covers provision for the meeting of various

costs and expenses referred to below. It will also be noted that the suggested settlement is subject to parliamentary approval, and is made without prejudice to, and without admission of any liability by, Canadian National Railways.

We are now in a position to set before you the alternatives which appear to be open to you:—

1. To endeavour by legal process to establish a claim against the Canadian National Railway Company and/or the Canadian Northern Railway Company. The trustees cannot recommend this course. Legal proceedings would be very expensive and would probably be of a protracted character, and their success cannot be predicted with certainty. The trustees would be most unwilling to embark on such proceedings, and would certainly not do so unless they were first fully indemnified by the stockholders against all expenses that might be incurred.

2. To instruct the Receiver to take steps to foreclose the security for your debenture stock and to realize the same to the best advantage. After considering this alternative fully with our directors in Canada and with the Receiver, we cannot, having regard to the suggested settlement made by the Canadian National Railways, recommend its adoption. From the year 1922 onwards the company showed substantial losses on operation before providing interest on your debenture stock. It is certain that the property cannot possibly be successfully operated as a railway company and will have to be dismantled and sold. The assets upon which your debenture stock is secured are briefly as follows:—

(i)	Right-of-way, rails, stations, rolling-stock, electrical transmission lines, substations and equipment, car barns, amusement park, etc. The committee appointed by us in Canada consider that the dismantlement and sale of these properties is unlikely, even under normal conditions which do not exist to-day, to realize as much as...	\$115,000
	and if realization were long deferred, as would probably be the case, heavy expenses would be incurred for insurance, taxes, etc., which would considerably reduce the amount realized.	
(ii)	Cash in hands of trustees with interest accrued to 31st May, 1933, approximately...	56,000
(iii)	Dominion of Canada and Dominion government guaranteed securities in the hands of the trustees estimated to have a present market value of approximately...	142,000
		<hr/> \$313,000
	=at \$4.90 to the £1 Sterling, say...	<hr/> £63,877

a sum which, even if realized, would amount only to 11·83 per cent, i.e., £11 16s. 7d. per £100 of your debenture stock, which could only be collected over a long period of time and would certainly be subject to deduction of heavy expenses.

3. To authorize the trustees to make a settlement with the Canadian National Railways upon terms which would enable the trustees to distribute to you a cash payment of 25 per cent of the £540,000 of outstanding 4½ per cent first mortgage debenture stock i.e., a sum of £135,000 clear of all expenses, and as part of such settlement to surrender to Canadian National Railways the whole of the then remaining property and assets upon which your debenture stock is secured. Such settlement would compare favourably with the estimated realization figure of £63,877 referred to in paragraph 2 above.

It will be noted that the suggestion of the Canadian National Railways covers the payment by them of certain expenses and disbursements aggregating

not more than \$35,000. The expenses and disbursements referred to are, up to the present time, estimated as follows:—

Expenses of receiver, committee in Canada, legal and trustees, approximately	\$ 13,420
Receiver's advances	4,500
Plus interest to, say, 30th June, 1933	116
Taxes, etc., approximately	16,500
	<hr/>
	\$ 34,536

We, as trustees, and our directors in Canada, who are fully acquainted with the position strongly recommend the making of a settlement on the basis indicated in this paragraph and as set out in resolution No. 1 in the enclosed notice of meeting. We and our advisers regard such a settlement as the most favourable likely to be obtained. The reasons for making this recommendation may be summarized as follows:—

- (a) The salvage value of the assets, including cash and securities, would not, if a sale were made now, yield the figure of \$313,000, or, say, £63,877 referred to in paragraph 2 above.
- (b) The realization of the salvage, if undertaken by the Receiver, would occupy an indefinite period as there is no present market for the physical assets. The trustees assume that the railway company could realize the assets to better advantage as being themselves users of some of the materials to be salvaged.
- (c) The suggested settlement by the Canadian National Railways can be dealt with fairly promptly and thus put an end to continuing expense.
- (d) The receiver and also the London committee referred to in our circular of 2nd December, 1932, recommend your approval of the suggested settlement. The London committee have handed to us a letter addressed to you on the subject, a copy of which we enclose.

Under the circumstances, we, as trustees, have decided to convene a meeting of debenture stockholders, as per formal notice enclosed herewith, to be held on Thursday, the 27th July, 1933, to consider and if thought fit, pass a resolution authorizing the trustees to conclude arrangements with the Canadian National Railways or their nominees which will secure £25 in cash for each £100 nominal of the stock free from all expenses. The trustees and the committee consider that a settlement in cash would be preferable to accepting new securities as the value of the latter would vary, depending on market conditions.

You will observe that the London Committee, in their letter of 15th July, 1933, have recommended that out of the cash available if such settlement be made 682 of 1 per cent of the nominal amount of debenture stock outstanding, i.e., £3,682 should be deducted for the purpose of paying the legal expenses of Mr. Alfred Barnard £1,132, for honorarium to Mr. Barnard £2,000, and for professional services, remuneration, and/or expenses of the London Committee £550.

We, as trustees, consider that the recommendations of the London Committee in this matter are fair and reasonable having regard to the labour and expenses incurred by Mr. Alfred Barnard and the Committee, and we have, therefore, in the notice convening the meeting incorporated a second resolution asking for your consent to the recommendations of the Stockholders' Committee in this matter.

A form of proxy is also enclosed, which proxy, if sent in, will be used at the meeting, or at the adjourned meeting, to vote in favour of the resolutions contained in the enclosed notice of meeting.

Under the terms of the Trust Deed securing your debenture stock it is provided that the quorum required at a general meeting of stockholders to pass an

extraordinary resolution shall be a clear majority in value of the holders of stock outstanding. Owing to a large proportion of debenture stockholders being resident in Canada, it would not appear to be possible to obtain the necessary quorum at the meeting called for the 27th July. Under such circumstances the meeting called for 27th July would, under the terms of the Trust deed, have to be adjourned for 21 days, viz., until 17th August, in order that those debenture stockholders present in person or by proxy at the adjourned meeting to be held on 17th August may be able to deal with the resolutions.

It is of the utmost importance that those debenture stockholders who are unable to be present at the meeting in person should send in their proxies.

If resident in Great Britain, to:

The British Empire Trust Company Ltd.,
Stafford House, 14-20 King William Street,
London, E.C.4.

If resident in Canada to Messrs. A. J. Mitchell and Co., Ltd.,
25 King Street West, Toronto 2.

Yours faithfully,

For and on behalf of

THE BRITISH EMPIRE TRUST COMPANY LIMITED,
H. M. Cox, *Secretary*.

In this circular is the letter written by Mr. Hungerford dated 4th May, 1933, which sets forth the offer that was made, addressed to the British Empire Trust Company:—

DEAR SIRs,—This will confirm that on the 24th April, I approved of there being sent by Mr. A. J. Mitchell to your Mr. John Davidson, cable as follows:—

Without prejudice and subject to parliamentary approval, the Canadian National Railways suggest full settlement of claims of debenture holders Toronto Suburban Railway on basis payment by National Railways of twenty-five per cent cash in sterling: all physical assets of Suburban Railway, including cash and securities in hands of trustees, to be turned over to the National. If you consider stockholders would prefer new securities in lieu of cash on substantially same ultimate financial basis management would consider such proposal.

Since then I have written Mr. Mitchell that if arrangements as referred to in such cable are made I would recommend payment of certain expenses and disbursements of the trustee and the receiver aggregating not more than \$35,000.

It must be understood that the above approval was given without prejudice to, and without admission of any liability by the Canadian National Railways, but subject to approval by parliament of any arrangement on the lines referred to in the cable.

That refers to the receiver appointed in Canada. After the bonds were defaulted a receiver was appointed and took possession of the property, and that refers to his expenses. This circular which was sent out bearing date 15th July, 1933, recommended the acceptance of the proposition and an extraordinary resolution of the bondholders was passed on the 17th August, in which settlement was approved. The resolution reads:—

Extraordinary resolutions passed at an adjourned meeting held on August 17th, 1933, of the holders of the Canadian National Electric Railway 4½ per cent first mortgage debenture stock issued by said company's predecessor, the Toronto Suburban Railway Company under Trust Mortgage dated 15th July, 1911.

1. That the British Empire Trust Company Limited be and they are hereby authorized to conclude arrangements with the Canadian National Railways for their nominees which will secure a distribution of £25 in cash for each £100 nominal of $4\frac{1}{4}$ per cent first mortgage debenture stock of Canadian National Electric Railways now outstanding free from all costs, charges and expenses of every kind and that if and when such arrangements are successfully concluded the trustees be and they are hereby authorized to discharge the said Trust Deed securing the said $4\frac{1}{2}$ per cent first mortgage debenture stock and to release to the Canadian National Railways or their order the whole of the then remaining property and assets comprised in such trust deed and to take all further steps that may seem to the trustees necessary or desirable to the intent that the said £25 of cash for each £100 nominal of the said $4\frac{1}{2}$ per cent first mortgage debenture stock now outstanding be received by the trustees on behalf of the Debenture stockholders clear of all costs, charges and expenses as aforesaid in full and final satisfaction of the principal and interest in respect of the said $4\frac{1}{2}$ per cent first mortgage debenture stock and of all claims by the stockholders of whatever nature in respect thereof, and that the trustees be and they hereby are authorized subject as aforesaid, to execute and do all deeds, documents and things whatsoever which in the opinion of the trustees are reasonably required for giving effect to this resolution.

2. That subject to the arrangements mentioned in resolution No. 1 above being satisfactorily concluded, the trustees be and they are hereby authorized out of the £25 for each £100 nominal of the said $4\frac{1}{2}$ per cent first mortgage debenture stock which will then be available for distribution as mentioned in resolution No. 1 above, to set aside and retain .682 of one per cent on the nominal amount of the debenture stock outstanding i.e., £3,682 and to pay there out to Mr. Alfred Barnard for legal expenses the sum of £1,132, to Mr. Alfred Barnard for honorarium the further sum of £2,000 and to the stockholders' committee for professional services, remuneration and/or expenses, the sum of £550 and that the trustees be and they are hereby authorized subject as aforesaid to execute and do all deeds, documents and things whatsoever which in the opinion of the trustees are reasonably required for giving effect to this resolution.

Hon. Mr. MANION: Would you explain the question of the fees?

Hon. Mr. FULLERTON: Yes.

Hon. Mr. MANION: The second clause in this resolution covers that.

Mr. POWER: That is, approximately £5,500 and some odd were paid for legal fees?

Hon. Mr. FULLERTON: £3,682.

Mr. POWER: Plus £2,000 honorarium.

Hon. Mr. FULLERTON: That is included.

Mr. POWER: And how about the £500 to the shareholders' committee?

Hon. Mr. FULLERTON: Well, the amount is fixed, .682 of 1 per cent.

Hon. Mr. MANION: It works out at about \$18,000.

Hon. Mr. FULLERTON: On the nominal amount of the debenture stock, .682 equals £3,682, and that is distributed.

Hon. Mr. MANION: It comes out of the money paid for the stock?

Hon. Mr. FULLERTON: Quite so.

Mr. POWER: But the Canadian National Railways paid the receiver's fees amounting to approximately \$35,000?

Hon. Mr. FULLERTON: That is correct. That is part of the agreement.

Mr. POWER: What was the total amount involved; what was the amount of the debentures outstanding at that time.

Hon. Mr. MANION: About \$2,000,000.

Mr. SMART: £540,000.

Hon. Mr. MANION: There was an estimate of \$500,000 roughly to cover that.

Mr. POWER: And 25 per cent of that would be paid.

Hon. Mr. MANION: I would like to have this all put on the record. There is one point I would like to make clear that I did not think of this morning, because we do not want this question misunderstood, and that is that the Canadian stockholders or bondholders, whatever you wish to call them, were not the original debenture holders. The original debentures were sold in England by Mackenzie and Mann, I think. The Canadian holders at the present time were not the original lenders, but bought them up for anything from \$30 to \$50, so that the people to whom the money would now be paid, so far as Canadians were concerned, were not the original lenders. Therefore, the strength of any moral obligation is lessened. Well, that is questionable, but I think it is a point to remember. The people from whom Mackenzie and Mann borrowed the money were the English people. They are the people who made the settlement, and I am inclined to think that there is an article in the trust deed giving the control of the matter to the English stockholders.

Mr. POWER: It does not say they shall have to be Englishmen.

Hon. Mr. FULLERTON: 75 per cent.

Hon. Mr. MANION: I think so.

Mr. SMART: It includes in the trust deed, notice in connection with these things only need be done in England and nowhere else.

Hon. Mr. MANION: That is the point.

Mr. POWER: No doubt it was the intention to keep the control in England.

Hon. Mr. MANION: I wanted to put that on record.

Mr. CANTLEY: If that is so and I understand it properly, the present holders are speculators; they bought the shares up in England after they defaulted.

Mr. POWER: I do not think the Minister would say that, would you?

Hon. Mr. MANION: Oh, no—not after they defaulted. My understanding is this—this is not said with any intent of offence to anybody—I was told this at the time that a Canadian broker got hold of a lot of these shares that were selling down around \$35 or \$30. Mr. Hungerford told me a little while ago he understood they had gone as low as \$30.

Mr. HUNGERFORD: I heard that.

Hon. Mr. MANION: I heard the same. A Canadian broker got quite a bunch of them together and brought them here and sold them here; and without, perhaps, meaning to give a wrong impression, the impression, of course, of the people who bought them over here was that the Canadian National, and through the Canadian National the government, was behind them. I do not say he did that intentionally, but that was the impression that the people got. That is what I was told, and that is why they feel even more bitterly than they would otherwise feel. I am only giving these facts because I feel that all the facts relative to this matter should be given in order not to affect our credit in England. That is my purpose. As I said, the government does not come into the picture. Are there any questions about that before we pass on to something else?

Mr. HANBURY: Is there any more business that it is absolutely necessary should come before us?

The CHAIRMAN: We were discussing the consolidated balance sheet of the Canadian National Railways, and there has been discussion on it. I do not know whether there are any more questions to be asked.

Mr. HANBURY: In view of the lateness of the session, and as we are anxious to get home, I think we can well afford to let this committee close its discussions. However, there is one question I handed to the chairman to-day, and if a reply could be given as part of the record I would like to have it.

Hon. Mr. FULLERTON: I will send it to the secretary of the committee.

OTTAWA, June 19, 1934.

The Honourable J. D. CHAPLIN, M.P.,
Chairman, Committee on Railways and Shipping,
Ottawa, Canada.

DEAR SIR,—The operating ratio of the C.N.R. declined steadily from 1923 to 1929.

After 1929 the cost of earning a dollar on the C.N.R. went up rapidly as compared with its main competitor.

The figures I am using for this comparison are the following: (Years 1923 to 1931 inclusive are taken from the Duff Report. 1932 and 1933 from the reports of the railways).

<i>Operating Ratios</i>			
Year	C.N.R.	C.P.R.	Spread
1923..	91·8	81·0	10·8
1924..	92·5	80·5	12·0
1925..	86·7	77·3	9·4
1926..	82·5	75·8	6·7
1927..	84·9	78·5	6·4
1928..	82·0	75·4	6·6
1929..	85·6	77·3	8·3
1930..	91·4	78·4	13·0
1931..	99·8	80·3	19·5
1932..	96·34	80·7	15·64
1933..	96·16	78·29	17·87

In the table given the C.P.R. ratio remained practically the same between 1929 and 1933—the C.N.R. records an increase of nearly 10 points.

(1) Is this change due to a decline in the relative volume of total business handled by the C.N.R.?

(2) Or to relative increase of expenditures?

(3) Your Annual Report, page 12, 1933, gives a summary of expenditures under different accounts—are these accounts comparable in the two roads?

(4) If the answer to No. 2 is in the affirmative, please state in which account the increase took place. (On basis of accounts, page 12.)

(5) I have the following statement of the equipment ratios of the C.N.R. and C.P.R.

*Equipment Ratio**
(Ratio to Gross Revenues)

Year	C.N.R.	C.P.R.
1923..	21·05	17·79
1924..	20·62	18·15
1925..	19·93	18·21
1926..	19·08	18·67
1927..	18·87	19·57
1928..	17·92	18·97
1929..	19·34	18·90
1930..	19·84	16·68
1931..	21·91	14·11
1932..	19·77	14·06

* Canadian Lines only C.N.R. including Eastern Lines.

These figures are fairly comparable from 1924 to 1929 but differ sharply after that date. Why?

(6) A newspaper article lately made this claim: "General expenses on the C.N.R. on a mileage basis are double the C.P.R. Does this difference exist—if so why?

Are the accounts of General Expenses on a comparable basis on the two roads?

Are pensions treated in the same way in this account in both roads?

Is there any difference in accounting methods *re* taxes?

I would appreciate answers to these questions.

Sincerely,

CANADIAN NATIONAL RAILWAYS

INFORMATION REQUESTED BY THE SELECT STANDING COMMITTEE ON RAILWAYS AND SHIPPING, JUNE 20, 1934

QUESTIONS BY MR. HANBURY

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Operating Ratios

Year	C.N.R.	C.P.R.	Spread
1923..	91·8	81·0	10·8
1924..	92·5	80·5	12·0
1925..	86·7	77·3	9·4
1926..	82·5	75·8	6·7
1927..	84·9	78·5	6·4
1928..	82·0	75·4	6·6
1929..	85·6	77·3	8·3
1930..	91·4	78·4	13·0
1931..	99·8	80·3	19·5
1932..	96·34	80·7	15·64
1933..	96·16	78·29	17·87

In the table given the C.P.R. ratio remained practically the same between 1929 and 1933—the C.N.R. records an increase of nearly 10 points.

(1) Is this change due to a decline in the relative volume of total business handled by the C.N.R.?

(2) Or to relative increase of expenditures?

(3) Your Annual Report, page 12, 1933, gives a summary of expenditures under different accounts—are these accounts comparable in the two roads?

(4) If the answer to No. 2 is in the affirmative, please state in which account the increase took place. (On basis of accounts, page 12.)

(5) I have the following statement of the equipment ratios of the C.N.R. and C.P.R.

Equipment Ratio*
(Ratio to Gross Revenues)

Year	C.N.R.	C.P.R.
1923..	21·05	17·79
1924..	20·62	18·15

*Canadian Lines only C.N.R. including Eastern Lines.

Equipment Ratio—Con.*

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1925..	19·93	18·21
1926..	19·08	18·67
1927..	18·87	19·57
1928..	17·92	18·97
1929..	19·34	18·90
1930..	19·84	16·68
1931..	21·91	14·11
1932..	19·77	14·06

These figures are fairly comparable from 1924 to 1929 but differ sharply after that date. Why?

(6) A newspaper article lately made this claim: "General expenses on the C.N.R. on a mileage basis are double the C.P.R. Does this difference exist—if so, why?"

"Are the accounts of General Expenses on a comparable basis on the two roads?"

"Are pensions treated in the same way in this account in both roads?"

"Is there any difference in accounting methods *re* taxes?"

Question 1: Is this change due to a decline in the relative volume of total business handled by the C.N.R.?

Answer: The relative proportions of total business handled by the all-inclusive Canadian National Railways System as compared with the Canadian Pacific System, including its Canadian rail subsidiaries for the years 1923-1933 inclusive, are as follows:—

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1923..	56·7	43·3
1924..	56·6	43·4
1925..	57·3	42·7
1926..	57·4	42·6
1927..	57·2	42·8
1928..	56·4	43·6
1929..	57·3	42·7
1930..	57·0	43·0
1931..	57·6	42·4
1932..	56·6	43·4
1933..	56·6	43·4

Question 2: Or to a relative increase in expenditures?

Answer: The relative proportions of railway operating expenses (with certain qualifications) for the Canadian National all inclusive system and for the Canadian Pacific System, including its Canadian rail subsidiaries for the years 1923 to 1933 inclusive, are as follows:—

<i>Year</i>	<i>C.N.R.</i>	<i>C.P.R.</i>
1923..	59·8	40·2
1924..	60·2	39·8
1925..	60·1	39·9
1926..	59·4	40·6
1927..	59·0	41·0
1928..	58·4	41·6
1929..	59·6	40·4
1930..	60·9	39·1
1931..	62·8	37·2
1932..	60·9	39·1
1933..	61·5	33·5

Qualifications: As compared with the Canadian National expenses, the Canadian Pacific expenses do not include express department expenditures, commercial telegraph expenditures, colonization and agriculture expenses and pensions.

Question 3: Your annual report, page 12, 1933, gives a summary of expenditures under different accounts; are these accounts comparable in the two roads?

Answer: The known large differences are stated in the qualifications to the answer to question 2.

Question 4: If the answer to No. 2 is in the affirmative, please state in which account the increase took place (on basis of accounts, page 12).

Answer: The relative proportions of the total expenditures for each of the general groups of expenses of the two properties for the years 1923-33 inclusive with the same qualifications previously mentioned are as follows:—

—	Maintenance of Way and Structures		Maintenance of Equipment		Traffic		Transportation		Miscellaneous		General		Total Expenses	
	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.	C.N.	C.P.
1923.....	58.6	41.4	60.1	39.9	41.8	58.2	61.1	38.9	47.9	52.1	68.4	31.6	59.8	40.2
1924.....	61.1	38.9	59.1	40.9	45.5	54.5	61.3	38.7	49.9	50.1	68.1	31.9	60.2	39.8
1925.....	62.2	37.8	58.9	41.1	44.6	55.4	61.1	38.9	47.8	52.2	67.1	32.9	60.1	39.9
1926.....	61.5	38.5	57.3	42.7	43.3	56.7	60.7	39.3	47.5	52.5	67.9	32.1	59.4	40.6
1927.....	61.5	38.5	55.7	44.3	43.5	56.5	60.6	39.4	49.8	50.2	67.3	32.7	59.0	41.0
1928.....	59.9	40.1	54.9	45.1	44.6	55.4	60.2	39.8	49.4	50.6	67.3	32.7	58.4	41.6
1929.....	61.2	38.8	57.7	42.3	45.7	54.3	60.9	39.1	48.3	51.7	67.6	32.4	59.6	40.4
1930.....	63.6	36.4	61.3	38.7	45.8	54.2	60.9	39.1	49.9	50.1	69.5	30.5	60.9	39.1
1931.....	65.3	34.7	68.1	31.9	43.0	57.0	61.5	38.5	47.7	52.3	69.8	30.2	62.8	37.2
1932.....	60.4	39.6	65.0	35.0	43.5	56.6	60.7	39.3	44.5	55.5	71.2	28.8	60.9	39.1
1933.....	63.3	36.7	63.9	36.1	42.8	57.2	61.0	39.0	48.9	51.1	71.7	28.3	61.5	38.5

Question 5: I have the following statement of the equipment ratios of the C.N.R. and C.P.R.

*Equipment Ratio**
(Ratio to Gross Revenues)

Year	C.N.R.	C.P.R.
1923..	21.05	17.79
1924..	20.62	18.15
1925..	19.93	18.21
1926..	19.08	18.67
1927..	18.87	19.57
1928..	17.92	18.97
1929..	19.34	18.90
1930..	19.84	16.68
1931..	21.91	14.11
1932..	19.77	14.06

*Canadian Lines only. C.N.R. including Eastern Lines.

These figures are fairly comparable from 1924 to 1929 but differ sharply after that date. Why?

Answer: The general statistical explanation is contained in the answers to questions 1, 2 and 4. It should be pointed out, however, that the ratios quoted in the question are subject to adjustment from year to year due to changes in accounting methods in the case of the C.N.R. and to the fact that the C.P.R. figures from 1923-1931 are for the C.P. Railway proper, excluding its Canadian rail subsidiaries. See also general remarks.

Question 6: A newspaper article lately made this claim: "General expenses on the C.N.R. on a mileage basis are double the C.P.R. Does this difference exist—if so, why?"

Answer: General expenses expressed in dollars per mile of road operated on the Canadian National and Canadian Pacific Systems as defined in the answer to question 1 for the years 1923-33 inclusive are as follows:—

Year	C.N.R.	C.P.R.
1923..	\$372	\$254
1924..	354	245
1925..	331	241
1926..	346	239
1927..	361	253
1928..	366	256
1929..	368	252
1930..	392	246
1931..	380	233
1932..	343	193
1933..	319	175

Question: Are the accounts of general expenses on a comparable basis on the two roads?

Answer: No.

Question: Are pensions treated in the same way in this account in both roads?

Answer: No. In the case of the Canadian National, pensions are charged to general expenses; in the case of the Canadian Pacific prior to 1934 pensions were a deduction from surplus.

Question: Is there any difference in accounting methods *re* taxes?

Answer: So far as is known to the Canadian National there is no difference in the accounting method regarding taxes in the reports made by the respective systems to the Dominion Bureau of Statistics. In the Canadian Pacific annual report to the shareholders, railway tax accruals are shown as part of working expenses.

General Remarks:—

A comparison of the operating ratios of two railway systems implies that the operating and traffic characteristics of the two systems are comparable. The known differences in accounting methods which would affect the operating ratio are as follows:—

- (a) The Canadian National includes gross express and telegraph revenue in revenue account; the Canadian Pacific excludes commercial telegraph revenue and carries "express privileges" in revenue account.
- (b) The Canadian National includes all telegraph expenses and express department expenses in operating expenses; the Canadian Pacific excludes a portion of telegraph expenses and all express department expenses from expense accounts.
- (c) The Canadian National includes colonization and agriculture department expenses as an expense item; the Canadian Pacific does not.
- (d) The Canadian National includes pension costs as an operating expense; the Canadian Pacific prior to 1934 did not.

The net effect on the operating ratio of these differences in accounting methods, varies from year to year. For 1933 these items explain 1.33 points in the spread of the operating ratios of the two systems.

Other special considerations may affect particular years, thus the Canadian National expenses in 1932 were lessened by the receipt of 2,000,000 ties

valued at approximately \$1,100,000 which were supplied by the Dominion Government as unemployment relief. The Canadian Pacific, according to their annual reports, in the years 1931 and 1932 charged certain unemployment relief works to the amount of \$6,327,616 to suspense and later to profit and loss. Also in 1931 the Canadian Pacific Directors' report indicates that the operating expenses did not include the normal proportion of equipment retirements; the Canadian National retirements actually increased each year since 1930. A changed policy of accounting on both systems with regard to treated ties also affects the operating ratio; since 1932 the cost of tie treatment has been charged to capital; prior to that date it was charged to operation.

Traffic considerations which affect the operating ratio relate to—

- (1) the average revenue per ton mile.
- (2) the type of commodity as affecting the average carload.
- (3) the average haul.

There are important differences between the two systems in all these items, except the average revenue per ton mile. Other things being equal, these differences explain from 1 to 2 points of the spread in operating ratios.

Traffic density per mile of road had a profound influence on the operating ratio, other things being equal. The expenses of operating a railway are divisible into two groups—one group of expenses is in the nature of overhead consisting of the portion of the expense which is necessary to keep the railway in condition and equipped to carry traffic. The other group of expenses consists of the actual expense involved in handling the traffic. Since only a portion of the expenses are increased with increasing traffic, the unit cost of earning a dollar of gross revenue (that is the operating ratio) decreases with increasing traffic. The Canadian Pacific traffic averages 15 per cent more per road mile than the Canadian National and this fact would normally explain from 3 to 6 points of the spread in the operating ratios.

The explanation of the balance of the spread between the operating ratios in the last few years may be found in the relative cuts in maintenance expenditures as shown in the answer to question 4. In this connection it might be pointed out that the track mileage of the C.N. is 32,124 and of the C.P.R. 23,380. The excess of C.N. track mileage over the C.P. is 37.4 per cent, whereas the excess of C.N. gross revenue over C.P. gross revenue is 30.3 per cent.

Hon. Mr. MANION: Were there any other points you wanted to take up before we close our proceedings?

Sir EUGENE Fiset: Carry on with the report.

Mr. HANBURY: I would rather not approve of the report; leave it as it is, unconsidered.

Hon. Mr. MANION: I rather think we should do something; the report is the report of the management.

Sir EUGENE Fiset: As a matter of fact, in the past we always approved of the report. That is the object of the meeting of the committee. We might as well accept the report as it stands.

Mr. HANBURY: I will accept that motion. Before you adjourn, as one who has opposed the Canadian National-Canadian Pacific Bill and who is still not very pleased with it, it does give me great pleasure to be able to say a word in support of the chairman of the trustees and of the trustees he has associated with himself on the board. I do feel that the government have succeeded in bringing to the operation of this railway probably the best brains and the highest type of Canadian citizenship we have, and I wish to be on record as being willing to do all I can to help them in every way I can to make the National Railways the success we all hope it will eventually be.

Mr. GOBEL: I desire to second that motion, Mr. Chairman.

Mr. HANBURY: I have made some suggestions which I was hoping to have incorporated in the report.

Hon. Mr. MANION: I have them before me now. These were handed to me by Mr. Hanbury:—

The committee recommends that until the government is relieved of all liability under the guarantee given, the accounts and estimates of the Canadian Pacific Railway and their subsidiary companies be submitted to a committee of the House for revision annually.

May I say a word about this. I have thought over this and I have looked up the reference, and as far as this committee is concerned it could not deal with this matter, because our reference—and this is drawn up by the clerk of the House—is specific; it is to the select standing committee of the House for the present session: “A select standing committee on railways and shipping owned, operated and controlled by the government.” That is the point I am making. We have no power to deal with the Canadian Pacific in this committee unless the House made a special reference of it to us.

Mr. HANBURY: I think if you will read what I have submitted you will see that I am not suggesting that this committee should do it; I am suggesting that a committee should be set up by the House to do it in the future.

Hon. Mr. MANION: Mr. Chaplin can deal with that. I am bringing out this point only.

Mr. POWER: Mr. Hanbury asks that we recommend to the House that a committee be set up to go into C.P.R. expenditures, and we can do that; we can always recommend something to the House.

Hon. Mr. MANION: If it is the voice of the committee to recommend that.

The CHAIRMAN: I would not want to put that into a report without submitting it to the committee for its approval and having it discussed.

Mr. HANBURY: That is the reason I suggested that perhaps a further meeting of the committee might be necessary in order to consider your report.

Hon. Mr. MANION: Might there not be a sub-committee formed of this committee to draw up a report instead of calling a whole committee?

Sir EUGENE Fiset: Why not follow the procedure of the past? The procedure of the past was that the chairman usually prepared the report after we had finished and submitted it to the committee for final consideration.

The CHAIRMAN: We have always submitted the report for the approval of members of the committee; we never sent a report to the House without having the approval of the committee.

Sir EUGENE Fiset: That is what I have suggested. When you have dealt with the final report and sent us a copy have final meeting and submit the report.

Hon. Mr. MANION: That makes it easier.

Mr. POWER: That makes it easier for everybody but the chairman.

Hon. Mr. MANION: Mr. Fullerton asks me if he and his colleague are released by the committee, and I have told them yes.

The CHAIRMAN: Very well, gentlemen, we will adjourn.

The committee adjourned.

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SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, MARCH 14, 1935

THURSDAY, APRIL 4, 1935

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.

Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.

Mr. S. W. Fairweather, Director of Economics, Canadian National Railways.

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

MEMBERS OF THE COMMITTEE

Mr. G. R. GEARY, *Chairman*

and Messrs.:

Beaubien,
Beaubier,
Bell (*St. Antoine*),
Bothwell,
Cantley,
Chaplin,
Duff,
Euler,
Fiset (Sir Eugene),
Fraser (*Cariboo*),
Gray,

Gobeil,
Hanbury,
Heaps,
Speakman,
MacMillan (*Saskatoon*),
Manion,
Power,
Price,
Stewart (*Lethbridge*),
Tummon.

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

Monday, March 4, 1935.

RESOLVED,—That Standing Order 63 of the House of Commons, relating to the appointment of Standing Committees of the House be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the accounts and estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said Committee consist of Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Bothwell, Cantley, Chaplin, Duff, Euler, Fiset, (Sir Eugene), Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Manion, Power, Price, Stewart (*Lethbridge*), and Tummon.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 1, 1935.

Ordered,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, March 4, 1935.

Ordered,—That the following Bill be referred to the said Committee, viz. Bill No. 24, An Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, April 3, 1935.

Ordered,—That the Order referring to the Committee of Supply the Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act presented to the House on the 18th March be discharged, and that the said estimates be referred to the Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 4, 1935.

Ordered,—That the said Committee be empowered to print from day to day 700 copies in English and 200 copies in French of its proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be given permission to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

FIRST REPORT

THURSDAY, April 4, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its First Report.

Your committee recommends that it be empowered to print from day to day 700 copies in English and 200 copies in French of its proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Your committee also recommends that it be given permission to sit while the House is sitting.

All of which is respectfully submitted.

G. R. GEARY,
Chairman.

MINUTES OF PROCEEDINGS

Room 268, House of Commons,

THURSDAY, March 14, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.30 a.m.

Members present: Messrs. Beaubier, Bothwell, Cantley, Duff, Euler, Fraser (*Cariboo*), Gobeil, Hanbury, MacMillan (*Saskatoon*), Price, Stewart (*Lethbridge*), and Tummon.

In attendance: Mr. V. I. Smart, Deputy Minister of Railways and Canals.

On motion of Mr. Tummon seconded by Mr. Duff, Mr. Geary was appointed Chairman of the Committee.

On motion of Mr. Hanbury,—

Resolved,—That the committee request permission to print from day to day its proceedings and evidence and that Standing Order 64 be suspended in relation thereto.

The committee adjourned to the call of the Chair.

HOUSE OF COMMONS,

Room 268,

THURSDAY, April 4, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m., the Chairman, Mr. Geary, presiding.

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bothwell, Cantley, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Price, Stewart (*Lethbridge*), and Tummon.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller Government Guarantee Branch, Department of Finance, and Mr. O. A. Matthews, representing George A. Touche & Co., Chartered Accountants.

On motion of Mr. MacMillan,—

Resolved,—That the committee request permission to print from day to day, 700 copies in English and 200 copies in French, of its proceedings and evidence.

On motion of Mr. Fraser,—

Resolved,—That the committee request permission to sit while the House is sitting.

The following reports, tabled in the House on April 2, were laid before the committee for consideration, viz.—

Annual Report of the Canadian National Railway System, for the year ended December 31, 1934;

Annual Reports of the Canadian Government Merchant Marine Limited and the Canadian National (West Indies) Steamships, Limited, for the year 1934;

Report of George A. Touche & Co., Chartered Accountants, on the financial accounts of the Canadian National Railway System for the year ended the 31st December, 1934;

Report of George A. Touche & Co., Chartered Accountants, on the financial accounts of the Canadian Government Merchant Marine, Limited, and the Canadian National (West Indies) Steamships, Limited, and Subsidiary Companies, for the year ended the 31st December, 1934;

Report of George A. Touche & Co., Chartered Accountants, on the Capital Structure of the Canadian National Railway System, as at the 31st December, 1934.

The committee proceeded with the consideration of the Annual Report of the Canadian National Railway System, the Hon. Mr. Fullerton and Mr. Cooper being examined thereon.

After a brief examination of said report, it was agreed, at the request of certain members of the committee, to deal with the Auditors' Report on the Capital Structure of the Canadian National Railway System.

Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants, was called and examined.

At 12.55 the committee adjourned until 4.30 this day.

AFTERNOON SITTING

The committee resumed at 4.30, Mr. Geary presiding.

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bothwell, Cantley, Duff, Euler, Fiset, Fraser, Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan, Power, Price and Tummon.

Mr. Matthews was recalled and further examined.

Witness retired.

At this stage, members of the committee were supplied with copies of a booklet describing the revised pension plan of the Canadian National Railways including its subsidiaries (except U.S. subsidiaries), which became effective on January 1, 1935, and Mr. S. W. Fairweather, Director, Bureau of Economics, was examined thereon.

Witness retired, and the committee adjourned at 6 o'clock until Tuesday, April 9, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 4, 1935.

Room 268.

The select standing committee on Railways and Shipping met at 11 o'clock, Colonel G. R. Geary, the chairman, presiding.

The CHAIRMAN: We will have to sit while the House is sitting, so I think we should have a motion to that effect. Then they tell me we shall want some 700 in English and 200 in French copies of the Proceedings and Evidence. Is that agreeable to the committee?

Mr. HANBURY: Carried.

Sir EUGENE Fiset: I wonder if we could get a copy of the Canadian National Merchant Marine Annual report? All that we have is the report on the Canadian National Railway system.

Hon. Mr. MANION: I think they have been distributed.

The CHAIRMAN: They have just been distributed. We have the annual report printed, and I think it would be well, if anyone wants to ask questions, to commence with the annual report on the Canadian National Railway system, and I suggest that we go through the balance sheet and the profit and loss statement and the different accounts set out at the back of the book. Is that satisfactory? Are there any explanations to make, or does it speak for itself, Mr. Fullerton?

Hon. Mr. FULLERTON: It speaks for itself, yes.

The CHAIRMAN: If there is no question to be asked on the general printed report running up to page 10, what do you say about page 12?

Sir EUGENE Fiset: We have not seen page 12 yet.

The CHAIRMAN: If you will turn to page 12 you will find the consolidated balance sheet as at December 31, 1934.

Hon. Mr. MANION: Have you not one of those reports?

Sir EUGENE Fiset: No.

Hon. Mr. MANION: They were to be distributed in the boxes this morning.

Sir EUGENE Fiset: They were not.

Mr. HANBURY: I received one.

Mr. MACMILLAN: I did not.

Hon. Mr. MANION: They certainly were to be distributed because I said so in the House. That was my information at the time. Have you spare copies?

Mr. FRASER: I have one now.

Mr. HANBURY: They put cards in the box and you had to send and get them.

Mr. STEWART: No.

Sir EUGENE Fiset: Mr. Hanbury has a preferred staff of his own.

The CHAIRMAN: Gentlemen, the first item on the consolidated balance sheet under the heading of investments is Investment in Road and Equipment. Are there any questions on any matter to be taken up in that account? The first item is investment in road and equipment, \$2,127,430,584.50; then improvements on leased railway property, \$3,807,673.67, sinking funds, total of \$23,860,365.22; deposits in lieu of mortgage properties sold—what are these?

Mr. COOPER: If mortgaged property which is secured by trust deed is sold, some of the trust deeds require that the proceeds be placed in the hands of trustees for the benefit of the bond holders, and this account represents such items.

The CHAIRMAN: "Miscellaneous physical property, \$60,404,737.61; investments in affiliated companies, \$31,553,318.58—

Mr. MACMILLAN: What is "miscellaneous physical property"?

Mr. COOPER: That is not transportation property, chiefly representing our hotel investment.

The CHAIRMAN: Is that the book cost?

Mr. COOPER: Yes, sir.

The CHAIRMAN: Is there any depreciation of that item?

Mr. COOPER: No.

The CHAIRMAN: This is its original cost?

Mr. COOPER: Yes.

The CHAIRMAN: That is a total investment of \$2,253,122,578.03. For my information would you tell me if that first item represents the book cost of your road equipment?

Mr. COOPER: Yes it is. That is the original cost of all property now comprised in the Canadian National Railway.

The CHAIRMAN: It has no reference to bonds or stocks or anything of that kind?

Mr. COOPER: Book investment.

Mr. FRASER: I suppose that item is carried forward from last year. Was that item shown last year?

Mr. COOPER: Plus additions during the year.

Mr. FRASER: Plus additions?

Mr. COOPER: Yes; there had been expenditures during the year 1934 which changed the figure carried forward.

The CHAIRMAN: Some of the property disappeared.

Mr. COOPER: Yes, during the year there were additions and betterments and retirements. As a matter of fact in 1934 the retirements exceeded the additions. There was a net retirement of some—

Mr. FRASER: Are the details of the account submitted somewhere else in the report?

Mr. COOPER: Yes, they are shown on page 21.

The CHAIRMAN: Are the retirements shown in this in detail?

Mr. COOPER: These are the net figures. The italics show the balance of retirement.

The CHAIRMAN: I think we are going to get into difficulty if we go from the general to the individual accounts. I think we had better run over each and then take up the individual accounts.

Mr. GOBEL: What is the item "Improvement on leased railway property"?

Mr. COOPER: It is of the same nature as the first item there except the property to which these betterments have been made is not owned by the railway. We have certain railways under lease and any capital expenditures on leased property is included in this second item.

Mr. TUMMON: Properties on long term lease?

Mr. COOPER: Most of them are long term; some of them are short.

The CHAIRMAN: Are there any further questions on those items of investment? We now come to current assets: cash, special deposits, traffic and car service balance receivable—

Mr. MacMILLAN: I wonder if I can get some information as to the branch lines purchased in the years 1929 and 1930?

The CHAIRMAN: That would be on page 21?

Hon. Mr. FULLERTON: 1929 and 1930?

The CHAIRMAN: What is it, Mr. MacMillan, expenditures in what?

Mr. MacMILLAN: Purchases of branch lines in 1929 and 1930.

Hon. Mr. FULLERTON: That won't be in those accounts; we can furnish it.

Mr. MacMILLAN: I have a series of questions here.

Hon. Mr. MANION: You had better read them out so that the rest will know about them.

Mr. MacMILLAN: 1. The names and location of six branch lines of railway taken over by the railway company in 1929.

2. The following information with respect to each branch.

- (1) The length in miles.
- (2) The amount paid.
- (3) The amount required to rehabilitate the railway.
- (4) The amount of the bonded and other indebtedness on each.
- (5) What portion, if any, of the bonds were guaranteed, by provincial governments?
- (6) Were any of these lines owned by provincial governments and if so which?
- (7) The operating surplus or deficit on each of said lines in each year since they were acquired.
- (8) The interest charges on each line in each year whether by way of interest on bonded indebtedness or on money used to purchase or rehabilitate the railways.
- (9) The total profit or loss with respect of each railway in each year, including interest, depreciation and other proper charges.

The CHAIRMAN: Mr. MacMillan, that information will be brought down as soon as it can be put together. Are there any other questions on current assets, gentlemen?

Hon. Mr. EULER: Mr. Chairman I came in a bit late, but I should like to know if the committee has decided on any definite course of action with regard to the various reports we have?

The CHAIRMAN: We were running through the general balance sheet.

Hon. Mr. EULER: This red book?

The CHAIRMAN: Yes.

Hon. Mr. EULER: I merely wish to say this: I have not seen it before and I think the other members of the committee have not seen it. It has just been handed to me now.

Hon. Mr. MANION: I sent out and made inquiries from the clerk in the distribution office and he says he put in every box of every member of the House a card permitting him to send and get these reports.

Hon. Mr. EULER: I know the card came last week that these other reports had been received, but none of the members have had an opportunity of perusing the books.

Hon. Mr. MANION: That is probably true, but it is largely their faults, due to those cards.

Hon. Mr. EULER: I do not find fault with anybody in particular; but the fact remains we have not had an opportunity of examining all those statements, and for my part I think it would be absolutely useless to attempt to go through these statements intelligently.

The CHAIRMAN: Suppose we take the consolidated balance sheet statement now? It seems to me when we come to the individual accounts such as maintenance of way structure, operating revenue and so on, we can then see how far we are stuck, and we may not be able to go on. But on this general statement we can go back to it any time.

Hon. Mr. EULER: Yes, but the chances, are we will not?

Hon. Mr. MANION: What do you suggest?

Hon. Mr. EULER: I do not like to suggest details, because the session is getting pretty well on, but ordinarily I would suggest that the members be given an opportunity of reading those statements, and perhaps we will go on with something else. If I might be bold enough to suggest one thing, I would say this: we left over a matter last year that should have been discussed and that is the auditor's report on capitalization, and we have a new one this year.

The CHAIRMAN: I doubt if all the members of the committee have that.

Hon. Mr. MANION: According to my information it was distributed to the members of the committee, but not all the members of the House.

Hon. Mr. EULER: They have all had it some time, but there is a newer one and later one submitted in those other reports. I am not trying to press it particularly at the moment, but I think that report should be carefully discussed with the representative of the auditing firm here.

The CHAIRMAN: I think that is quite true. He is not here now, is he?

Hon. Mr. MANION: Yes.

Hon. Mr. FULLERTON: Mr. Matthews is here.

The CHAIRMAN: Yes. I am in the hands of the committee. If the committee desire to do that now I should be very glad to.

Hon. Mr. MANION: I do not think you were here on Tuesday when we were discussing this matter in the House.

Hon. Mr. EULER: Yes.

Hon. Mr. MANION: I mention it because I do not think you were in when I spoke; I remember, I looked across and I did not see you in your seat. I did mention to the House the tabling of the report, and I did ask the committee if they could meet on Wednesday. Mr. Duff, I remember, and Mr. Hanbury were the two who suggested Thursday. It was arranged that the committee would meet on Thursday, at their request.

Hon. Mr. EULER: I was a few minutes late.

Hon. Mr. MANION: And I think you missed it, I do not think you were in the House. I hope we will be able to go on with some of the business because we have brought the officers here really at the request of the committee and I think we could start today, and then if there are any questions arising later out of what we take up we could go back. I hope we will be able to go on. I do not care personally, I have no interest in what you deal with at all. It was the suggestion of the chairman, and I think rightly, that we should consider the annual report. If the committee wishes to do differently it is up to the committee to decide what we are to deal with.

Hon. Mr. EULER: Might I by way of suggestion say this; I think we have always had some sort of a preliminary or general statement from the chairman of the Board. No doubt he is ready to go on, and possibly he might give it now. Following that, if it be the wish of the committee, we might have perhaps a more or less general statement by the auditor.

The CHAIRMAN: I asked the Chairman of the Board if there was anything he wanted to add to this (the general statement); but, of course, that does not mean much.

Hon. Mr. EULER: No.

The CHAIRMAN: But, if the Chairman would like to run through it, or if you would like to hear from him and have him run through it, he might like to indicate some of the salient points of the general report.

Mr. HANBURY: In what time I have had to study this statement it occurs to me that we have very complete information this year by the trustees and the auditors in connection with some of the matters that we have previously investigated. I think we should have an opportunity of going through them. We will save a great deal of time by going through them instead of having to ask questions here. But, in the meantime, I would suggest that we are all fairly familiar with the necessity for making some change in the capital structure of the railway, and as we have a very complete report prepared by the George A. Touche Company in that connection I would suggest that we might leave the balance sheet for the time being and consider the capital structure of the railways this morning.

The CHAIRMAN: It does not matter in the least to me, gentlemen; it is only a matter of getting on as fast as we can. Is it the wish of the committee that we deal with this grey-covered report from the auditors; there is one, the report on the capital structure; and the other, report and accounts for the year, on both the railways and the steamships?

Hon. Mr. EULER: Is Accounts really necessary?

The CHAIRMAN: Take this report, on capital structure; that is the one you had in mind.

Hon. Mr. EULER: Yes.

The CHAIRMAN: Is it the wish of the committee that we discuss that.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: All right, gentlemen; we will proceed. Has every member had that in his hands and had an opportunity of going into it, because this is the more involved of the two and it would require study more than the other.

Hon. Mr. EULER: I think we we have had this a little longer.

The CHAIRMAN: I think most of the members have that. There are no new members on the committee this year, I think. These were distributed to the members of the committee of last year. I do not know that there are any new members. I should think that is a rather difficult matter to work out unless the members have gone through it in their rooms and in that way gained some idea of what is proposed.

Hon. Mr. EULER: Might we perhaps do this: many of the members have not read through that report with regard to capital structure and perhaps they could read it more intelligently if the auditor this morning were to give us a more or less bird's eye view of the whole situation; just presenting the reasons why he thinks that something should be done, and suggestions as to how the capital structure should be written down or altered. Then if you like we can still discuss it and ask him questions; or then in the light of what he has said read the report and come to some decision about it later on at another meeting.

The CHAIRMAN: Is that satisfactory, gentlemen?

Hon. Mr. EULER: I would move that the auditor be heard.

The CHAIRMAN: Is Mr. Matthews here? Would you just come up this way so we can all hear you.

O. A. MATTHEWS, called:

Mr. HANBURY: Mr. Chairman, just before Mr. Matthews proceeds, I would like to refer the Chairman of the Board of Trustees to the evidence which he

gave before this committee last year in connection with the capital structure, and for that purpose I will read a portion of his evidence:—

Referring further to the criticisms which I have read against the recommendations of the auditors:
this was with reference to the capital structure;

It has been said that what is proposed would be a distinctly dishonest form of bookkeeping and that those supporting the recommendations are parties to a calculated deception of the Canadian taxpayer. I regret that statements of this sort should be used in a public discussion of the matter. It is also said that it is simply a matter of bookkeeping and will effect no useful purpose. I disagree with this view. There are many reasons, one of which is the disheartening effect upon the management and the employees who must face year after year an insurmountable burden of debt. The effect of this should not be underestimated. The enterprise viewed as a business concern is also in my opinion prejudicially affected by this condition. I believe it would stimulate the organization if they were given an objective which it would be within their power to reach.

If that objective should be to earn the interest on the funded debt in the hands of the public that would constitute a task of real magnitude, but not beyond the possibility of accomplishment with a return of something like normal conditions. We must not forget that there can never be a repetition of expenditure on a scale such as existed during the last decade.

Now, with that is a preface to my remarks I would just like to ask the Chairman of the Board of Trustees if he still subscribes to this provision.

Hon. Mr. FULLERTON: I am still of the same opinion.

Mr. HANBURY: Yes.

The CHAIRMAN: Now, Mr. Matthews, perhaps you had better take as your text book this report on the capital structure.

Mr. MATTHEWS: I don't know just what line the members have in mind for me to summarize, but generally speaking it can be said that our purpose in making these recommendations in the last two years has been not only from the point of view of the accounts of the railways themselves, but having been appointed by parliament in 1934 as their representatives, and having found in the Canadian National-Canadian Pacific Act very definite instructions to the auditors, we felt that we should call to the attention of our clients (in this case the shareholders of the Canadian National) certain conditions that we have encountered in Canada and elsewhere in our organization, concerning the effect of these huge figures upon the finances of Canada. Now, we have in our report therefore dealt with misconceptions, and perhaps we should give a brief outline of the reasons for this confusion.

First of all it must be borne in mind that the corporate advances were originally considered as direct assets of the Dominion, in the early days. I think it was some time toward the end of the war or perhaps a little later that there was a change made in the basis of the Dominion accounting. In the second place, capital advances for corporate purposes have been treated as loans whilst capital advances for the Canadian government railways have been treated as appropriations or expenditures on behalf of the Crown. In the third place, the treatment of cash deficits covered by Government advances has been very difficult for the average investor to understand. And, we are not here criticizing any of that, we are simply reciting reasons for confusion. From 1923 to the 30th of June, 1927 cash deficits for the system were treated as loans. From the 1st of July 1927 to the end of 1931 the cash deficits were treated as loans, but only after the exclusion of eastern lines' deficits and the Maritime Freight Rates Act contributions; and from 1932 to 1934 these cash deficits were treated as direct contributions by the Dominion for the entire system.

Now, in the fourth place interest accruals were naturally subject to variation, in line with the treatment of cash deficits etc.; and the different treatment of interest on corporate loans as distinguished from others in the form of appropriations to the Canadian government railways caused confusion.

The fifth point of confusion that we encountered is the fact that the public balance sheet of the national system shows amounts advanced and appropriations for all purposes as liabilities, whereas the Dominion, which can be likened unto a parent company, shows in the public accounts these items as part of the net debt of Canada. And again let me emphasize, we are not criticizing the basis of computation of public accounts.

In the next place the deficit as shown on the published balance sheet of the National system is not the gross accumulation of losses. Much misconception has centered around that point, as the net figure is after eliminating Dominion contributions for deficits, subsidies and interest, thereon and without interest on Investment in Canadian government railway as Crown property. Furthermore, the profit and loss deficit on the published balance sheet of the National system appears as an unredeemed impairment of the shareholders' capital; and there is no one to our knowledge who has ever looked on it as anything else; that is, in a public way.

Mr. FRASER: Pardon me, Mr. Chairman; Mr. Matthews is evidently reading from a memorandum there. Is that memorandum included in the report submitted to the committee.

Mr. MATTHEWS: No. It is just a list of points that we wrote down in order to explain the reasons for these misconceptions.

Mr. FRASER: It is supplementary to this report?

Mr. MATTHEWS: Oh yes.

Mr. HEAPS: You are just reading from notes?

Mr. MATTHEWS: Yes, from my own notes.

Mr. HEAPS: That is quite in order.

Mr. MATTHEWS: I beg your pardon?

Mr. COWAN: That is quite in order, he says.

Sir EUGENE Fiset: That is quite all right.

Mr. MATTHEWS: Furthermore, the profit and loss deficit on the published balance sheet of the National system appears as an unredeemed impairment of the shareholders' capital; whereas the Dominion as the shareholder has already absorbed the losses by inclusion in the net debt, or partially by taxation raised in previous years.

In our capacity as public accountants in Canada and other countries, and as auditors of the National system during recent years, we have been brought face to face with the realities, and we have had to consider the misconceptions of the country's finances along with those of the National Railways on the part of private investors, and even investment groups which misconceptions are increasingly evident in published statements of various kinds in both Canada and the United States.

The CHAIRMAN: Just a moment; what you are reading there is as of to-day?

Mr. MATTHEWS: Yes sir.

The CHAIRMAN: That is, as of to-day; you mean that?

Mr. MATTHEWS: Yes; as a matter of fact this was only written this morning before we came down here.

The CHAIRMAN: I mean, in point of time.

Mr. MATTHEWS: In recent months misconception has been increasingly evident in public statements of various kinds in both Canada and the United States. For obvious reasons we cannot make specific mention of persons before

the committee, but we propose reading a few excerpts selected at random to illustrate the situation. I have these in our box, and I would be very glad to read them.

Mr. HANBURY: We would like to have them.

Mr. MATTHEWS: This question of misconception, I believe, has been challenged. We have selected a few excerpts to read to this committee, of what has been published both inside and outside of Canada, to indicate whether or not these misconceptions really exist.

Hon. Mr. MANION: Who challenged that?

Mr. MATTHEWS: Well, in the objections, starting on page 12 of our report on capital structure, Doctor Manion, we have indicated some of the points that have been raised; and they have all been raised: either in public statement in the past year, in the public press, by statements in the committee of last year or even on the floor of the House of Commons.

Mr. HEAPS: Let us have them.

Mr. FRASER: I suppose the statement you are making at the present time is an amplification of what we find on page 3 at the bottom of the page: "This misconception, which takes on even more serious proportions in some quarters, could be amplified should parliament so wish."

Mr. MATTHEWS: Yes. The note that I have been reading here is merely an explanatory outline which we have made really as a means of having available for the committee some detailed illustrations of what these misconceptions really are and how they have arisen.

The CHAIRMAN: I do not think that we should ask too many questions at this stage, in order that there may be a running statement and the notes may not be mixed up by interjections.

Mr. MATTHEWS: I shall read just a few of them. I shall not name the papers, as you will readily see that that would not be proper.

Mr. MACMILLAN: It will not do any harm to name them.

Mr. MATTHEWS: Well, if any private member wants to see them, he can.

Mr. GRAY: They have been made public and were issued to and read by the public. I do not see any reason why they should not be given out.

Hon. Mr. MANION: No. I do not imagine that we want a lot of straw men put up and knocked down. I think we might as well deal with facts.

Mr. MATTHEWS: All right. I think, however, there is the matter of policy from our point of view.

Hon. Mr. MANION: Some from ours, also.

Mr. MATTHEWS: Well, Doctor Manion, do you dispute that the statements have been made?

Hon. Mr. MANION: I have not heard the statements yet, so I cannot dispute them. I would like to know the source of them. I repeat that I do not want to see a lot of straw men put up and knocked down. I do not say you are attempting to do that. I think we should know the source of the statements.

Mr. HEAPS: I quite agree with Doctor Manion.

Hon. Mr. EULER: If they were made publicly, I do not see any reason why we should not have them.

Mr. MATTHEWS: Very well. In an article in the Campbelltown Graphic of March 7, in speaking of "why keep up a bookkeeping fiction", it makes this statement,

But of course if they are written down on the C.N.R. books, they must be written up on those of the Dominion Treasury, which is where the actual loss has occurred.

Mr. MACMILLAN: Is that an editorial?

Mr. MATTHEWS: Yes.

Mr. MACMILLAN: By the Campbellton *Graphic*?

Mr. MATTHEWS: Yes, by the Campbellton *Graphic* of March 7, 1935.

Mr. MACMILLAN: What is the circulation of that paper?

Mr. MATTHEWS: Well, I really could not tell you as to that. The Ottawa Journal made a statement which the Peterborough Examiner, for instance, and other papers quoted. One of the remarks they made was:

And that is what most of us and the others have been imagining. We ourselves have written profound articles upon our total liabilities, adding the total railway debt to the total of the national debt, and not knowing at all that a billion dollars of the railway debt was also in the national debt, that, consequently, we were a billion dollars wrong.

Of course, had we been more industrious, or more analytical, we should have discovered our mistake . . ."

And they go on.

Mr. MACMILLAN: That is from the *Journal*?

Mr. MATTHEWS: Yes.

Mr. HANBURY: Of what date?

Mr. MATTHEWS: That is taken from the *Peterborough Examiner* of February 23, and they were quoting from the *Ottawa Journal*. Now, the *Saskatoon Star-Phoenix* . . .

Mr. MACMILLAN: That is a good paper.

Mr. HEAPS: What is the circulation?

Mr. MATTHEWS: All right, gentlemen, you can check up the circulation of some of these papers later, if you so desire.

Mr. GRAY: We have a member of the committee here who can give that information. That was the reason for that question.

Mr. MATTHEWS: I must say that we are not familiar with the circulation of every paper in Canada, but I am just reading some of the things that we find, "And to make matters still worse . . .", that is from the *Saskatoon Star-Phoenix*:

Mr. HANBURY: Of what date?

Mr. MATTHEWS: The date is February 25.

The CHAIRMAN: What year?

Mr. MATTHEWS: These are all quite current.

The CHAIRMAN: 1935, are they?

Mr. MATTHEWS: Yes. This reads:—

And to make matters still worse, it is not uncommon when stating the public debt of Canada, to first include these advances to the C.N.R. as part of the direct debt, and then to add to that figure the total of the C.N.R. obligations, in which these have already been included once.

Then there is one from the Hamilton *Herald* of February 18; and I may say that these are articles all a year after this subject had been up. We are not going to read the earlier articles, because we assume that they were written before the question had been given current study; but this is a year after it has been made public.

Hon. Mr. MANION: I don't suppose you are suggesting that, because some of these editorial writers have made mistakes, it was only a year ago that the people discovered that they had these debts or that there was this situation of these debts?

Mr. MATTHEWS: I could not answer you that.

Hon. Mr. MANION: I could.

Mr. MATTHEWS: I beg your pardon?

Hon. Mr. MANION: I say I could, because I know that the ministers of railways—not only I, but the other ministers of railways, most of the members of the government, at any rate, and I presume a great many of the members of parliament, although not all of them, have understood the situation for very many years. They did not have to wait for any audit firm to point it out.

Hon. Mr. EULER: I think many members of parliament do not understand the situation.

Hon. Mr. MANION: I say most of them did.

Hon. Mr. EULER: Some still do not.

Mr. GRAY: And the public at large do not.

Hon. Mr. MANION: There is no doubt about the public at large, because it is a very complicated subject.

The CHAIRMAN: Let us get on with this statement.

Mr. MATTHEWS: The *Hamilton Herald*, under date of February 18, states:

We have been told over and over again that we have a national debt of something like \$2,750,000,000 and a railway debt of roughly the same size.

The *Chatham Gazette* of February 22, 1935, enters into an editorial in which they are discussing some argument with the *Telegraph-Journal* in which one paper is contending that the debt is some \$2,700,000,000 and the other paper is contending that it is some \$5,500,000,000, and they have quoted a financial authority in the town as the basis of their conclusion that it is approximately \$5,500,000,000.

Hon. Mr. EULER: When it really is what?

Mr. MATTHEWS: Well, what the duplication roughly is the amount of liability shown on the National Railway balance sheet to the Dominion government.

Hon. Mr. EULER: Over a billion and a half?

Mr. MATTHEWS: Approximately, yes. The *Tribune* of Winnipeg, some months ago, said:—

Auditors now propose to write off \$586,000,000 of which more than half is advances from the government on deficit account. These items can hardly be said to enter into the psychological picture since the deficit statement usually refers only to securities in the hands of the public.

Of course, the net income deficit takes in the interest on government advances. Another paper, the *Financial Post* on February 2, 1935, had an article—they have written quite a few articles—inspired by a professor of one of the universities in the United States.

Mr. MACMILLAN: What is his name?

Mr. MATTHEWS: Prof. Fournier.

Mr. HEAPS: Which university is he from?

Mr. MATTHEWS: I could not say at the moment.

Mr. COOPER: Princeton

Mr. MATTHEWS: Mr. Fournier makes the statement in one of the columns there:—

Therefore the railway's accounts should continue to show the amount of past advances and the amount of the accumulated deficits.

Of course, it has never done that, although he seems to clearly realize that fact in one other part of the article.

Now I would like to read something that comes from the United States.

In a reported address delivered before the Traffic Club of Minneapolis of February 28 of this year, these were some of the statements that were made—

The CHAIRMAN: Who is the speaker?

Mr. MATTHEWS: The speaker is Milton W. Harrison, president of the Security Owners Association of New York. First of all, he makes a statement that probably few of us will disagree with:—

Applying the frequently used rule where maximum fixed obligations are taken at 65 per cent of the capital structure, the Canadian National Railways are thus found to be carrying an excess debt burden of approximately \$1,150,000,000.

Then he goes on to say:—

... the outstanding bonds of the government system, including guarantees, represented no less than 71.7 per cent of the total Canadian National debt.

Formidable as is this burden already placed on the back of the Canadian taxpayer, he must further assume an annual operating deficit of approximately \$123,000,000. Thus it will be seen that when unpaid interest is compounded at the rate of 4%, representing the actual cost of borrowing to the Canadian Government, the railroad debt doubles itself by 1951. Were depreciation included, as in the case of all soundly managed private companies, the debt would double itself in sixteen years...

But even this is not the whole story. During that nine year period from 1923-31 the Canadian National expended on capital improvements a total of \$456,000,000 or an average of \$50,000,000 yearly...

Since no interest was paid on these capital expenditures, it also began to compound, thus raising the actual deficit from \$123,000,000 to \$174,000,000 per year, or from \$212 per minute to \$332 per minute... Thus we find if the concealed figures are added to those actually published, the railroad's debt doubles not in eighteen years, but in eleven."

He further goes on to say:

"Bear with me one moment more—"

Hon. Mr. MANION: Who is this gentleman, anyway? Surely a half-witted statement like that should not be taken seriously.

Mr. HANBURY: He is a most important man.

Mr. MATTHEWS: I still have another one here, Mr. Manion.

Hon. Mr. MANION: He has absolutely no knowledge of the situation. I do not think the public should waste its time on a man who shows such little knowledge.

Hon. Mr. EULER: There is just this to consider, the misconception he is spreading by these reports, which are certainly not right.

Hon. Mr. MANION: If the committee likes it, all right. Any man with an asinine brain like that who would charge up the Canadian National with having a deficit of \$174,000,000 a year knows nothing about it, because there is no such figure.

Hon. Mr. EULER: No. We are just wanting to show that it is asinine, so that the people of Canada will be disabused of the wrong conception that they have. That is exactly the purpose of the auditor.

Hon. Mr. MANION: I don't think anybody in Canada is so ignorant as to believe that. This fellow is asinine.

Hon. Mr. EULER: Why should they make those statements in the States, then?

Hon. Mr. MANION: I don't know. I have no idea. Go ahead, Mr. Matthews.

Mr. HEAPS: Mr. Matthews, would you kindly say again who that gentleman is, so that Doctor Manion will be impressed with his position.

Hon. Mr. MANION: I shall not be, no matter who he is.

Mr. GRAY: In any event, the speech was given publicity, and that is the matter we want to counteract.

Mr. MATTHEWS: Not only that. We have another one here from the United States, to indicate to you the type of information or misinformation that is available to those who want to look at the thing from a serious point of view and regard these misconceptions for what they are.

Hon. Mr. MANION: May I ask you, Mr. Matthews, do you suggest that, even if his statement was wiped out as to the losses and the deficits and all that, a man who could make so many mistakes in as short a space would not go on making mistakes?

Mr. MATTHEWS: I don't know.

Hon. Mr. MANION: I don't think you could correct that fellow, anyway. However, go ahead.

Mr. MATTHEWS: I don't know. I am only reading to this committee what is available to anyone if they want to extend their inquiry into this thing.

The CHAIRMAN: He is no friend of the Canadian National Railways.

Hon. Mr. EULER: We want it known that he is no friend of the National Railways, and to get right on this situation. I have heard it said, and seen newspapers who have figured, that the National Railways' deficit per year was over \$120,000,000, and I want it corrected, if it is possible to correct it.

That is not finished yet. He goes on to say:—

Bear with me one moment more, for the entire story is not yet told. Notwithstanding that the Canadian National railways was losing money at the rate of \$175,000,000 a year and that operating revenues had declined from \$250,000,000 in 1930 to \$200,000,000 for 1931, and then to \$161,000,000 for 1932, further capital expenditures were decided upon. In 1930 a program of improvements was begun and in that single year \$237,000,000 were spent—more than the entire gross revenue of the railroad: thus the debt we have seen doubling in eleven years increases its progression to something approaching our own—it now doubless itself in eight years, while the loss assessed against the taxpayer rises from \$332 to \$433 per minute.

I think that works out finally on his computation to something like \$225,000,000 a year. He continues:—

There was no escape from that debt now taking heavy toll from the national income and which exceeded the combined wealth of the provinces of New Brunswick, Nova Scotia, Prince Edward Island, Manitoba, Alberta and British Columbia.

I do not want to burden this committee, but I have something else to read—one more extract. There is in the United States today, as probably you all know—

The CHAIRMAN: The point in regard to that statement is that the whole statement is wrong, is that it?

Mr. MATTHEWS: Fundamentally, yes.

The CHAIRMAN: It is all wrong?

M. MATTHEWS: It is a misconception.

The CHAIRMAN: It is a misconception on Mr. Harrison's part. Whether it is a deliberate misconception or an innocent one you cannot tell?

Mr. MATTHEWS: No. The wider consideration in this matter is not alone a statement such as Mr. Harrison has made—there are many statements of that kind made, very similar to that; but when we have knowledge of the fact that in

the United States today there is a better controversy going on between those who advocate public ownership and those who advocate private ownership and in between those two contestants lies the Canadian National Railways, we think there is something vital to the Dominion to be considered in it. Now, I will refer here to a paper called Railroad Data. I will show you what kind of circulation this paper has.

Mr. HEAPS: Where is it published?

Mr. MATTHEWS: In a recent report in this magazine—

Mr. HEAPS: Would you give us some idea of this paper?

Mr. MATTHEWS: This is the publication here in bound form.

Mr. HEAPS: Where is it published?

Mr. MATTHEWS: It is published in the United States. As a matter of fact it has a good deal to do with the dissemination of information in this dispute between private ownership and public ownership in the United States. We are not taking any sides with regard to which is the more sound economically.

Mr. HEAPS: Who is responsible for its publication?

The CHAIRMAN: The eastern railways of the United States.

Mr. MATTHEWS: Yes, the Eastern railways of the United States.

Hon. Mr. EULER: Is it the organ of the privately owned railways?

Mr. MATTHEWS: Yes. Here are some of the facts given out by Railway Data: "It is now in its thirteen year, the circulation exceeds two and one half million annually and continues to increase solely as the result of individual requests from citizens in all walks of life." The bound volume which I have here "is widely used as an authoritative reference by college libraries and financial houses."

The CHAIRMAN: Whose statement is that?

Mr. MATTHEWS: This is from their own statement, giving an idea of what the circulation is.

Mr. MACMILLAN: How often is it published?

Mr. MATTHEWS: Weekly. I would like to read another extract.

Hon. Mr. MANION: I have never heard of this publication, but glancing through it I take it that there are a few pages published monthly. For example, this page is apparently of January 12, 1934, there is a page dated January 19, 1934, and one dated January 26. Apparently one page is put out every week. I am learning too. I notice that this publication is put out with the compliments of the committee on public relations of the eastern railways, 143 Liberty street, New York City. The names below are as follows: E. E. Loomis, chairman, president, Lehigh Valley Railroad, P. E. Crawley, president, Rutland railroad, W. W. Atterbury, president, Pennsylvania Railroad, C. E. Denny, president, Erie Railroad Company and John Henry Hammond, chairman, Executive Committee, Bangor and Aroostock Railway. That is on the front; it is not on the paper itself. The paper itself is a one page sheet put out containing specific information such as they wish to give out.

Mr. GRAY: Let us hear what they give out.

Hon. Mr. MANION: I am not trying to stop you; I am trying to give the information to the committee as I see it here.

Mr. MATTHEWS: Under date December 6, the chairman of the Eastern Presidents' Conference from New York gave out information that during the month of November 78 addresses were delivered before various organizations in thirteen states.

One of the statements under date December 21, 1934, made and asked to be circulated by one of the railway officers connected with this organization is as follows:—

Government operation of the Canadian National railways has piled up a public debt of nearly three billions of dollars in nine years.

And he finishes up by saying:—

After reading this statement—

Mr. HEAPS: Who made that statement?

Mr. MATTHEWS: John J. Cornnell, chairman of the central committee of the Baltimore and Ohio Railway, the Public Relations department, December 21, 1934; and he goes on in his circular to quote some figures given by Mr. Beatty, and he finishes up saying:—

After reading this statement by Mr. Beatty will you not pass it along to your friends.

Mr. HANBURY: Would you read what Mr. Beatty is supposed to have said?

Mr. MATTHEWS: Yes, if you wish. Mr. Cornnell spoke of the speech of Mr. Beatty delivered before the Board of Trade and service clubs of Vancouver in part as follows:—

The railway situation in this country is unsound and unhealthy. I do not know why we should continue to be sick just because we have heretofore been able to pay the doctor's bills. The railway experiments of the past have left us with a publicly owned system which has a debt of no less than \$2,895,799,134 as of December 21, 1933. These are astronomical figures. They still tend to increase. By no ingenious method of bookkeeping can they be reduced.

No serious student of economics—not even those who warmly advocate great expenditures of public funds as the road to the revival of business—has ever suggested that anyone can benefit by the operation of publicly owned utilities at a great loss. It is contrary to the whole philosophy of public ownership. It is not even in accord with the rules of any system of socialism.

IS THIS EXPLOITATION?

More than this, however, I should like to know if you have ever given a moment's serious thought to the question of whether the ownership of one of the transportation systems of this country by private interests constitutes an opportunity for exploitation. Do you realize that the publicly owned and privately owned railways of Canada make exactly the same charges for the same service, that, in fact, in the last analysis, neither company fixes these rates; that you can ship goods throughout Canada or travel where you will by one railway at exactly the same cost as you can by the other? How, then, can anyone allege that the private ownership of a railway permits exploitation of the public more than public ownership?

FAILED TO EARN INTEREST

Nor is this all. May I point out to you that the Royal Commission on Transportation reported that during the nine years, 1923-1931, the Canadian National railways failed by no less than \$456,053,195 to earn the interest which the government of Canada was bound to pay to private capitalists who owned the securities of that system. Whence came this sum of almost half a billion dollars? You paid as much for the service of that railway system as you would if it had been privately owned, and you paid in taxes almost half a billion dollars in those nine years to private capitalists for the privilege of saying that you owned the Canadian National railways.

In those nine years the private capitalists who owned the Canadian Pacific railway received in interest and dividends \$401,080,152. In this case, however, I wish to point out to you that this amount did not come from taxation in addition to your payment for services. It was saved by the owners of the private railway company from the money which they received from you for the transportation of persons and commodities. If this is exploitation by private capital, as contrasted with protection for the public by public ownership, then I do not understand the meaning of the English language.

We are not entering into any controversy with Mr. Beatty on his speech; we are simply reading what he has said.

Hon. Mr. EULER: I think this is important and serves the purpose for which it was read. I think the statement of Mr. Beatty is the most important of all. If it is true we would like to know it; if it is not true, especially with regard to the debt and the figures quoted, then I think Mr. Matthews should show wherein they are not true.

The CHAIRMAN: The difficulty I foresaw is borne out; we should have gone through the accounts first.

Hon. Mr. EULER: I do not think that has anything to do with this year's accounts.

The CHAIRMAN: It has to do with our capital structure and our indebtedness.

Hon. Mr. EULER: I think it would be more or less useless to quote statements which show a misconception on the part of the public and others unless they are not corrected. I think, if Mr. Matthews can, he should show wherein Mr. Beatty's statement was wrong, because it may have more of an impression on the people of Canada probably than anything else that has been said.

The CHAIRMAN: That has been published and the people of Canada have seen it. In my opinion we should not stop the proceedings at this point to have that analyzed and disputed. Somewhere we must have it done, but I do not think we are proceeding in an orderly way when we stop in the middle of Mr. Matthews' production of some figures to dispute this statement.

Hon. Mr. EULER: I should think this is the moment to do it. It is going out.

The CHAIRMAN: It went out months ago.

Hon. Mr. MANION: May be Mr. Matthews would pass an opinion as to that statement—whether it was correct or incorrect—the statement of the interest?

Mr. MATTHEWS: The statement of Mr. Cornwell?

Hon. Mr. MANION: No, with regard to \$452,000,000. That is what Mr. Euler is referring to.

Hon. Mr. EULER: Yes, and the debt.

Mr. MATTHEWS: Mr. Beatty was quoting from the Royal Commission. We have not analyzed this statement, Mr. Euler; we would have to look at it again and study it.

Hon. Mr. FULLERTON: It includes the interest to the government.

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: My understanding was that Mr. Beatty said there were some \$450,000,000 odd interest in nine years; is that correct?

Mr. MATTHEWS: No, a deficit. It was not the statement of Mr. Beatty that we originally set out to deal with, it was the statement of the \$3,000,000,000 in nine years quoted by one of the officials—the chairman of this committee in the United States—and asking that the information be passed around.

Mr. HEAPS: Mr. Beatty is not connected with the committee you referred to, is he?

Mr. MATTHEWS: Oh, no; he is not connected with the committee. They are just using some of the statements he is reported to have made, and then they are drawing their own conclusions from them.

Hon. Mr. MANION: As a matter of information, you quoted a statement of Mr. Beatty in the December 21st, 1934, issue of that organ *Railroad Data*. I was searching while Mr. Matthews was quoting Mr. Beatty and I cannot find anything in the issue of December 21, concerning Mr. Beatty at all.

Mr. MATTHEWS: It would not be in that issue at all. We are quoting from a statement Mr. Beatty is reported to have made in Vancouver.

Hon. Mr. MANION: You were dealing with this *Railroad Data*?

Mr. MATTHEWS: Mr. Hanbury asked me to read Mr. Beatty's speech, which I did. In the first place I was giving to you the circulation of this paper, telling you what the purpose of the paper is and quoting a statement made by the chairman of the Public Relations department, Central Committee.

Hon. Mr. MANION: I was trying to link up where you associated Mr. Beatty with the December 21st issue that you were quoting?

Mr. MATTHEWS: Dr. Manion, they took Mr. Beatty's reported speech in Vancouver and they made some quotations from it.

Hon. Mr. EULER: I think, Mr. Chairman, I am becoming a nuisance, but we are just now talking about misconceptions in the minds of the public, and I take it that the citations given by Mr. Matthews are citations of misconceptions. He has read a portion of Mr. Beatty's speech, I suppose to support his argument that they are misconceptions. If they are wrongful statements or statements of misinterpretations of Mr. Beatty's speech, I think they should be contradicted here, shown to be wrong; that is my point. If there are misconceptions we want to clear them up.

The CHAIRMAN: Mr. Matthews has not the figures of Mr. Beatty; he cannot clear them up. Is there any further discussion in regard to that. Mr. Matthews is not in a position, not having analyzed the statement of Mr. Beatty, to make a reply at the moment.

Mr. MATTHEWS: I should like to make one statement in reply to the request of Mr. Euler. We would not, just offhand, without giving it some further thought, wish to give a final opinion on it. It does require a little study and checking up. We did not bring it into the picture.

The CHAIRMAN: What you brought into the picture was the speech in which Mr. Beatty was quoted, and naturally enough Mr. Hanbury asked the question; so you brought into the picture that speech.

Mr. BOTHWELL: Mr. Matthews gave to us a general statement as to misconceptions that had gone out regarding the Canadian National. He digressed a little to show some of the information that is going out to the public. Now, why can't he deny the statements that were originally made?

The CHAIRMAN: Quite so. He was interrupted by a question of Mr. Euler who said he thought he was making a nuisance of himself, which he was not, in asking the question.

Hon. Mr. EULER: All right; let us have it.

Mr. MATTHEWS: There is not very much more that we can say about the misconceptions other than what we have said. There is no use in re-reading what we have written on pages 2, 3 and 4 and therefore I propose to give a brief outline of the recommendations, if that is the wish of the committee.

Hon. Mr. MANION: Will the committee kindly express to Mr. Matthews what they want him to go on with?

Mr. HEAPS: Let him proceed in his own way.

Hon. Mr. MANION: He is asking for direction.

Hon. Mr. EULER: On page 3 he gives a list of supposed book assets to a total of a little over \$1,000,000,000, which I understand Mr. Matthews' firm recommends should be disposed of, written off, if you like, and I should like to have him explain why he thinks that should be done.

The CHAIRMAN: Then you turn to the recommendations, I suppose?

Hon. Mr. EULER: That is one.

Mr. MATTHEWS: The recommendations fall under four main heads. I should like to repeat again we have no quarrel with the public accounts, but in representing the shareholders here we are looking at it from a consolidated point of view. Therefore we must of necessity bring in public accounts insofar as they relate to the National Railways in order that parliament may have an understanding of what the combined result of the two actually is. The first recommendation calls for the adjustment of the Canadian National Balance sheet of the items detailed or mentioned by Mr. Euler. Now, the details of this recommendation can be seen in the appendix at the back in which there is a fairly complete outline of why it is submitted and what the advantages would be if the adjustments were made. I am not just clear on how much of the detail the committee would have me repeat, but on page 6 and the top of page 7 we take recommendation 1 and we split it up into a, b, c, d, and e, which takes care of the \$1,046,000,000 which Mr. Euler mentioned. And then by referring to the appendix 1 (a) you will get the explanation of 1 (a) on page 6 and 1 (b) on appendix page 2 and so forth. I do not know just what further detail we can give you.

Hon. Mr. MANION: Mr. Matthews, if I understand him right, is pointing out his recommendations are in this statement.

Mr. MATTHEWS: I do not think the committee requires me to explain the submissions; I think they are clear.

Hon. Mr. EULER: The reasons are given on page 6.

Hon. Mr. MANION: Are you anxious to have him explain the submissions, or anything of that nature?

Hon. Mr. EULER: If the committee is fully conversant with the reasons, it is not necessary.

Hon. Mr. MANION: The reasons are in the copy we all have.

Hon. Mr. EULER: Would it take very long to tell the reasons why they should be written off?

Mr. GRAY: While I would be perfectly agreeable to Mr. Matthews to giving a summary, I have not had sufficient time to study the report as I would like to, but I should be glad to have him, if he will, summarize it, as I certainly am not competent to pass on it now.

The CHAIRMAN: It is practically a matter of reading it over.

Mr. GRAY: I am only about half way through myself.

Mr. MATTHEWS: In the first place, gentlemen, it is clear, is it not, that the explanations of recommendations 1 (a) to (e) are summarized on pages 6 and 7, and further covered in detail in the appendix, page number (i) to (xi) and that recommendation No. 3 is outlined on the bottom of page 8 and pages 9, 10, and top of 11, and covered also in the appendix pages (xi) to (xiv) of which appendix there is an index. Now, with that thought in mind, the committee at its leisure might wish to read the details. Roughly the purpose is this, that the Grand Trunk stocks (when it was the Grand Trunk corporation) were submitted to a board of arbitration; that is to say the first, second and third preference shares and the ordinary or common stock of the company—

Hon. Mr. EULER: A total of \$165,000,000?

Mr. MATTHEWS: Yes, the figure of \$180,000,000 which is sometimes referred to. The difference is the \$14,000,000 which was the treasury stock of the Grand Trunk, which amount was included in the certificate, being \$180,000,000 odd issued to the Minister of Finance, after the arbitration; but the \$165,000,000 is the only amount involved in the adjustment of the published balance sheet of the National system, because that difference has never been set up in the published accounts. After the board of arbitration gave its award which predicated no value to those securities; the certificate was issued, as I say, to the Minister of Finance, and the Grand Trunk figures were carried forward as they were into the Canadian National Railway system, leaving the assets on the books as they were before the arbitration award. The same situation holds good in connection with the Canadian Northern. The value of the common stock was submitted to arbitration and it was found that the 600,000 shares that Mackenzie, Mann and Company at that time owned, were judged to have a value of \$10,800,000. Now, using that as a basis for the \$100,000,000 worth of capital stock, there would arise an equivalent value of \$18,000,000 for the total amount of the Canadian Northern stock, and what is proposed in the case of those two arbitrations is that the entries be made so that the published balance sheet of the National system will give effect to the findings of the arbitration boards.

In regard to the advances for deficits. It is a contribution to replace impaired capital. If a shareholder invests \$1,000 and he loses \$100 of it and advances that \$100 to make good and carries it as an advance, you can see that he is pyramiding his capital account. That would not be so serious; in fact we would have much less point in making these recommendations, gentlemen, if it were not for the fact that the consolidated result as between the railways and the public accounts of Canada is affected; that is, if it were just the Canadian National railway system, and if we could imagine for a moment that the public accounts took these up as assets before the determination of net debt there would be much less force in the proposals. Can anyone recall an instance of any large corporation anywhere where they advance money to subsidiaries to make good the losses, write them off to their own profit and loss account and require the subsidiary to maintain them as capital liabilities? You can see what an impossible situation would soon be created for the enterprise as a whole. We are just applying the same reasoning in the case of the government. Of course since 1932 the government have recognized that principle by absorbing the losses of the National system (excluding the non-cash items and government interest) into the consolidated fund of the dominion; so we have the picture from 1923 to the first of July, 1927, of the creation of those advances against the railways, as liabilities on the books of the railways, and from the first of July, 1927, to the end of the year 1931 that figure is reduced by the deficit contributions of the eastern lines and Maritime Freight Rates Act and for 1932, 1933 and 1934, it finds no place in the liability account at all. So that the principle has already been recognized in the last three annual contributions by the dominion.

Hon. Mr. MANION: Before you get away from that, may I ask you this: did I understand you to say that between 1923, if you like, or previous, and 1930, 1931 or 1932, when we began to recognize that the money was contributed towards deficits, the amount was charged up as part of the capital structure of the Canadian National. Is that right?

Mr. MATTHEWS: It was capitalized; whereas since the Maritime Freight Rates Act and later Railway Financing Acts came into being it was absorbed.

Hon. Mr. MANION: The rest was still capitalized?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: Since 1932 we have been charging it up to the consolidated revenue account?

Mr. MATTHEWS: Yes. Of course, Dr. Manion, as far as the public accounts are concerned, everything is in the net debt anyway, but the impossible situation arises through the manner of handling the Canadian National railway accounts in respect to it.

Hon. Mr. MANION: I appreciate that.

Hon. Mr. EULER: Is this so: since the government has recognized that the deficits from year to year are no longer charged against the National railways, but written into the dominion's consolidated account, that same principle should be recognized in the accumulated deficits of previous years.

Mr. MATTHEWS: Yes.

Hon. Mr. EULER: And written into the national debt which is now the practice? That should be made retroactive so that these old accumulated deficits would also disappear.

Mr. MATTHEWS: Yes, from the published Railway liabilities.

Hon. Mr. EULER: That is the argument, isn't it?

The WITNESS: On the published accounts of the National Railways.

Hon. Mr. EULER: Especially since the federal government does not carry as assets these accumulated deficits and interest, although the railways carry them as liabilities; which is certainly illogical and inconsistent.

Hon. Mr. MANION: Excepting, of course, that you have got it in the capital structure; if I understand Mr. Matthews correctly, and I think I do. You have here in the capital structure of the Canadian National Railways—whatever you may do in the future—you have the deficits that accumulated up to 1931, in the capital structure of the Canadian National. In other words, they were capitalized; to use that word.

Hon. Mr. EULER: And, of course, they should come out, in order to be consistent with the present practice.

Hon. Mr. MANION: He says they should come out, they are a bookkeeping entry.

Hon. Mr. EULER: Yes. I do not think the Canadian National Railways goes as far as that; but, because they are written into the national debt they ought also to be written out of the railway debt. In that way we would have a similar condition shown by the railway books.

Hon. Mr. MANION: Of course, they should be taken out in the same way.

Mr. HANBURY: I would like to ask Mr. Matthews, in view of his recommendation as to dealing with past deficits, whether the auditor has given consideration to the new capital structure, and whether they have given consideration to the physical value of the property, or to its earning capacity.

Mr. MATTHEWS: That we cover later, Mr. Hanbury. That is a broader aspect of the situation.

Mr. HANBURY: Yes. The point that I was anxious to make was that I do not think the impression should go abroad from here that we are just dealing with one phase of it.

Mr. MATTHEWS: This is only the first step. The public accounts of Canada and the published liabilities of the National system should be such that there would be no duplication of the net debt as understood by a large section of the public both in Canada and other countries.

Hon. Mr. EULER: You have this anomaly; in the national debt, there is a large sum of money, a billion or billion and a half dollars which is also in the debt of the railways—that is your point.

Mr. HANBURY: Could you give me what that exact sum is?

Mr. MATTHEWS: Oh yes; that is on page 2. The total Dominion of Canada account in round figures is \$1,817,000,000. Now, of that \$265,000,000 shown for the capital stock the only amount that is in the net debt of Canada is \$10,000,000 paid to acquire the Canadian Northern stock. Of the balance there is only \$15,000,000 that is not in the net debt, and that is a part of the \$404,000,000 of Dominion capital appropriations which former amount constituted the working capital turned over by the government at the time the Canadian government railways came into the National Railways for operation.

The CHAIRMAN: Just a moment, Mr. Matthews; taking these figures showing the amount of the public debt, \$1,800,000,000; about how much of that perhaps could be written off?

Mr. MATTHEWS: We recommend (on the next page) some \$1,046,000,000. The difference between these two figures after providing for non-cash items in 1934 deficit would be the amount of the capital stock proposed to be issued for advances and Canadian Northern common stock together with appropriations for Crown property. That would be the net result. As covered later on in the report. Take on page 9 for instance, it gives a summary of it—\$361,000,000 left for capital stock, and \$404,000,000 for the Dominion's appropriations for Canadian Government Railways.

The CHAIRMAN: Will you go back to appendix, page 1, and there you will see that the proposal contemplates a reduced value on the old Grand Trunk system by \$165,000,000.

Mr. MATTHEWS: Yes.

The CHAIRMAN: The principle of the award was based on the condition of the Grand Trunk at the time of acquisition; that had nothing to do with the assets; I mean, the assets were there.

Mr. MATTHEWS: It was primarily the earning position.

The CHAIRMAN: The earning position only.

Mr. MATTHEWS: Primarily, yes.

The CHAIRMAN: Is it \$165,000,000 still; there is nothing in the decision to show that it does not represent assets.

Mr. MATTHEWS: Not exactly.

The CHAIRMAN: But, because it was not earning money the Privy Council sustained the award, that it was of no value.

Mr. MATTHEWS: In regard to the property, Mr. Chairman, it might be borne in mind that there were two factors there. First of all, during the course of the arbitration the arbitration auditors found that there was a sum of \$129,000,000 improperly in the property account at the time, and in addition to that it was found during the course of the arbitration that there was some question about the condition of the property at the time of the acquisition.

The CHAIRMAN: Yes; but the arbitration rejected all the evidence as to the value of the property; they wanted to get evidence as to reproductive use and depreciation.

Mr. MATTHEWS: There was a dissenting viewpoint.

The CHAIRMAN: And because it was not earning any money the arbitrators say we will not consider the value of the physical assets.

Mr. MATTHEWS: The award of the arbitrators was based on earning capacity; whereas, the Canadian Northern arbitrators did indicate in their award that they were willing to give some thought to the value of the property, and they had Professor Swain, I think it was—

The CHAIRMAN: I do not want to go into that. As far as we know this \$165,000,000 represents the property, the material assets, whether they existed at the time or not, originally.

Mr. MATTHEWS: Yes, I would say so, generally speaking. We are not making the statement, of course, that all the Grand Trunk stock—

The CHAIRMAN: No, I understand not, it was not written off.

Mr. MATTHEWS: You see, we cover that just a little later on in our recommendations, where we deal with the balance sheet of the Grand Trunk at about the time of acquisition.

The CHAIRMAN: Where is that?

Mr. MATTHEWS: That is at the bottom of page 1 of the appendix.

The CHAIRMAN: Oh, yes; I quite understand that, but we are dealing now with the entire assets.

Mr. MATTHEWS: Well, they are simply—

The CHAIRMAN: And the valuation of this stock by the Privy Council and the Arbitration Tribunal has nothing whatever to do with the assets.

Mr. MATTHEWS: That was the value of the stock.

The CHAIRMAN: Just the stock; the assets are presumably still there although they may have depreciated.

Mr. MATTHEWS: The arbitrators, primarily considered the earning power.

The CHAIRMAN: Yes, the earning power.

Mr. MATTHEWS: But during the course of the arbitration, as we point out here—in case it might be overlooked—the arbitration auditors reported a sum of \$129,000,000 as being actually in the property accounts which on analysis should not have been there.

The CHAIRMAN: That is one side of it; of course, the other side were not allowed to give their evidence.

Mr. MATTHEWS: I think we tried to make clear that we are not commenting upon the propriety of the arbitrators' procedure.

Hon. Mr. MANION: Might I ask Mr. Matthews a question, just to clear up a point? Along the lines which you have just been discussing I notice there is the capital stock of the old Grand Trunk and also of the Canadian Northern, and along with that there are other items—it is on page 3—relating to the recapitalization suggestion of Mr. Matthews; namely two other items. There was, along with their capital stock, advances for deficits, and interest accrued on Dominion advances and loans. There are the two items there, one for \$459,000,000 for the latter; and \$324,000,000 for the former. That would be roughly \$800,000,000, which if governments in Canada in the past had not put up for the Canadian National Railways would have been the amount of money that would have been available either to pay interest on the national debt, or to be used for debt retirement purposes.

Mr. MATTHEWS: Yes, subject to variation in interest rates.

Hon. Mr. MANION: I just wanted to make that clear.

Mr. HANBURY: Oh, oh!

Hon. Mr. MANION: I just wanted to make that clear. I don't quite get the joke, Mr. Hanbury; I would be glad to have you explain.

Mr. HANBURY: I don't get the point of your question.

Hon. Mr. MANION: I get the point. The point is this: Mr. Matthews has explained the position of the capital stock of these two companies, and with them he has grouped the amounts advanced to meet deficits and also the interest which has accrued on Dominion advances and loans. I don't mind saying quite frankly that I do not think the amount shown as being the value of that capital stock should be charged against the Canadian National Railways; I think it is placed at many times its value. What has been done in the past is that we have charged the deficit and interest up to consolidated revenue, and on the last

two items in the statement alone that amounts to \$800,000,000. The net result of that is that if that \$800,000,000 had not been used as it was to meet railway deficits and accrued interest it would have been available to pay the debt, or the interest on the debt. I simply say it is questionable, so far as I am concerned, whether that item should be wiped out.

Mr. HANBURY: In other words, I interpret your remarks to mean that because the federal government did not let the Canadian National Railways go into bankruptcy at the time they should have they allowed them to drift into a position where they are in greater need of bankruptcy than they were.

Hon. Mr. MANION: I do not admit that. The suggestion made by Mr. Matthews makes no difference whatever from the standpoint of cash return to Canadian National Railways; it makes no difference whatever, though it clears the picture if wiped out. I don't quarrel with, it clears the picture; but it does not effect the Canadian National Railways to the extent of one cent if you wipe out this \$1,046,000,000 that Mr. Matthews suggests. That is what I want to make clear.

Mr. HANBURY: But, we have had evidence this morning to show what effect it has outside of Canada; and it probably has an effect as well on the ability of Canada to borrow money.

Hon. Mr. MANION: That is possible, I am not going to argue that point. There is perhaps something in that, but I certainly am not going to take the evidence of men like Harrison, who made so many misstatements, on a thing like that.

Mr. HANBURY: He is not the only one.

Hon. Mr. EULER: I think, in making that statement, the Hon. Minister has rather read himself out of court, when he says for example that the deficits up to 1932 should not be written off, particularly in view of the fact that the deficits of the last three years have been written off. Why not follow that principle all the way through?

Hon. Mr. MANION: I suppose you would, if you accept that principle—that what we have done during the last two years has been correct, and that what my honourable friends have done for the ten years before that has not been.

Hon. Mr. EULER: You may put it that way if you like.

Hon. Mr. MANION: It may be that we possibly should not have done what we did, that may have been a mistake.

Hon. Mr. EULER: Go ahead and make some more mistakes of that kind . . .

Hon. Mr. MANION: We have been busy correcting yours for a long time.

The CHAIRMAN: That was all you had, Mr. Matthews?

Mr. MATTHEWS: I was just answering a question. I think Mr. Hanbury asked me how much of the liabilities of the Canadian National were included in the net debt of Canada. I referred you to page 2 and referred you to capital stock being \$10,000,000, and of the balance only \$15,000,000 as the amount carried in current assets before determining the net debt (excluding temporary advances).

The CHAIRMAN: Now, gentlemen, Mr. Matthews will resume, if he has anything else.

Mr. MATTHEWS: I really was only dealing with one clause of the report.

The CHAIRMAN: That is quite right. And now that you have had a tack up wind you might resume your course, if you will.

Mr. MATTHEWS: We had completed the points, as far as we are concerned, in respect to the advances for deficits; and then we dealt with the matter of interest accruals of \$459,000,000. Of course, the argument which applies to deficits would certainly apply to accrued interest, insofar as that interest applies

to deficits. Insofar as that interest applies to advances for other purposes, it is based on the premise, of course, that at no time has the property—at least over a period of years—come within the range of earning interest on any of the advances. We are not taking the position that the government have no right to charge interest, or anything of that kind. We are just attempting to keep before this committee the fact that these are duplicated liabilities and duplicated losses. We are not here to convince anyone whether you should reduce the interest or whether you should not. We call it to your attention and repeat that the interest on the deficit advances follows the same line of argument as was advanced for the deficits themselves; and the interest on advances for other purposes has at no time over a period of years, taken as a whole, come within the range of being earned. The \$15,000,00 of Grand Trunk debentures is explained in this way, that they were junior to the first, second and third preference stocks of the Grand Trunk, and the common stock; in turn as the latter were declared worthless, it would automatically follow that the junior securities of the early pre-confederation period would also be without value. That covers our recommendation in respect of the first step of adjusting the published accounts of the National system. In the second place we touch on the question of public accounts.

Hon. Mr. EULER: Mr. Chairman, if I may interrupt once more, just for the sake of clearness would it be right to say that, boiled down, your recommendation for writing off the old Grand Trunk capital stock, Canadian Northern capital stock, advances for deficits, interest accrued on Dominion advances and loans at one billion dollars odd, is because there are no actual assets in the Canadian National Railways against that? Is that, putting it broadly, correct?

Mr. MATTHEWS: Well, that is our view.

Hon. Mr. MANION: Now, just a minute. Let us go into that for a moment. I think, perhaps, that is right; but the way I was looking at it, the money upon which the interest is charged, a good deal of it, was capital invested. There is a good deal of confusion—I may just get away from that for a moment—in the minds of a great many people in regard to what the interest is charged upon. In other words, the government has advanced money for the Inter-Colonial and the other government roads to the sum of four hundred million odd. Mr. Matthews will correct me if I am wrong, or if he thinks I am wrong; and it will save him repeating it he thinks I am right. There has been four hundred million odd given in past years for the Inter-Colonial and the other government roads. No interest is charged upon that, and never has been; but interest has been charged upon advances in the past ten or twelve years, upon money which was advanced for deficits and for capital investment. Is that right?

Mr. MATTHEWS: Yes, in respect of corporate units.

Hon. Mr. MANION: That is correct. In other words, the interest that is charged up to-day is interest charged against the money advanced during the years—do you know how many years?

Mr. MATTHEWS: From the beginning.

Hon. Mr. MANION: Since 19—?

Mr. MATTHEWS: Since the beginning of the corporate loans.

Hon. Mr. MANION: I just wanted to get that clear, because interest is only on part of the government advance since Confederation.

Hon. Mr. EULER: Just one question, is that interest still being charged at the moment?

Hon. Mr. MANION: On the books of the railways? Yes.

Hon. Mr. EULER: No, I mean on the books of the government.

Hon. Mr. MANION: I do not think the books of the government charge it, no.

Mr. HEAPS: Arising out of the statement just made by the Minister of Railways, as I apparently have not got the information as clearly as the other members of the committee, I would like to know what is the amount of the deficits or total losses of all the railways that were taken over by the government, say some few years ago. This just gives a picture as to what the position is as compared to the time we took these railways over. I do not presume that the information is available at this moment, but I do feel that at very short notice that information could be submitted to the committee here.

Mr. MACMILLAN: Up to what date?

Mr. HEAPS: I would like the amount of the annual losses of the railways at the time they were taken over by the government as a publicly owned utility.

Hon. Mr. FULLERTON: You mean the Grand Trunk?

Mr. HEAPS: All of them, every one of the railways which is a constituent part of the Canadian National Railway system.

Hon. Mr. FULLERTON: From the time they were taken over by the government?

Mr. HEAPS: Yes.

The CHAIRMAN: And before the time they were taken over.

Mr. HEAPS: Yes, for a few years previous, three or four years previous.

The CHAIRMAN: You can hardly segregate it since they were taken over.

Mr. HEAPS: Since they were taken over—we have that information. But at the time of taking over, I would like to have that information.

The CHAIRMAN: All right, that will be obtained, Mr. Heaps. May I ask Mr. Matthews, a question at this point with regard to page 6. I just want to get at these interest accruals on Dominion advances. I think Doctor Manion just said that the interest is not charged on the books of the government. It must be charged.

Mr. MATTHEWS: I presume it is meant not charged against the railways in public accounts.

Hon. Mr. MANION: Oh, yes, in our consolidated debt.

The CHAIRMAN: Certainly it is carried in the books.

Hon. Mr. MANION: The Chairman has just asked me to make clear something that I apparently did not make clear before. I said that that interest which is being charged by the railways or against the railways on government advances was not charged in the books of the government; I meant as a separate item. It is, of course, included in our consolidated debt. It is part of the consolidated debt, but I mean it is not charged, so far as I know, as a separate item against the railway in the books of the government.

The CHAIRMAN: The books of the company?

Hon. Mr. MANION: In the railway balance sheet. In the railway statement it is charged as an interest item at the bottom of page 15. It shows interest on Dominion government loans, \$35,000,000 odd. That is charged there. I think I am right that it is not charged as a separate item in the public accounts as against the railways; but it is included. Of course, in so far as government debt was incurred to provide the money for the railways, it is included as part of our consolidated fund expenditure.

The CHAIRMAN: And the principal is shown.

Hon. Mr. MANION: And the principal is shown, yes. That is correct.

The CHAIRMAN: I wanted to get at where the confusion in the minds of the public is. You make an analogy between this and the impairment of capital by ordinary shareholders?

Mr. MATTHEWS: Yes.

The CHAIRMAN: But when the ordinary shareholder impairs capital, he pays interest on the amount he put in to replace that impairment.

Mr. MATTHEWS: When the shareholders put in money to replace capital lost?

Some Hon. MEMBERS: Louder.

The CHAIRMAN: He must pay interest on the money himself.

Mr. MATTHEWS: Yes, if he borrows the money.

The CHAIRMAN: The government does.

Mr. MATTHEWS: Yes.

Mr. HANBURY: There has been some discussion which we could not hear, and which the reporter could not hear and was not taking. I would suggest that if it is of any importance, it should be repeated.

Mr. MATTHEWS: It was with regard to the question of interest. Doctor Manion created the impression, I think, that the interest we are discussing now is paid by the government and is shown somewhere in the government books, but not as an individual item, applicable to railway accounts; but it is paid. We have got to pay our interest. It is shown in two ways, either as part of the net debt or it has been raised partially by taxation in prior years and in fact as a defined item appearing nowhere in Public Accounts. It is an expense; it has been paid for, and it is gone, just like an old suit of clothes.

The CHAIRMAN: It is not quite, because you make an analogy between this and the case of an individual shareholder who is called on to contribute to a company some money to the extent to which the capital has become impaired. That is what is done here by the government to the Canadian National Railways. The point that Mr. Matthews makes is, that having been done, it should not be capitalized, because it is simply an impairment of capital. You get no more assets for it. What I say, is that the shareholder does have to pay, and in this case the Dominion government does not have to pay interest on the money that it puts in for impairment of capital.

Mr. MATTHEWS: Yes, on its borrowings.

The CHAIRMAN: And it has got to be paid, and it is shown in our accounts. Now, Mr. Matthews said it has provoked some misconceptions on the part of the public because an outside account, the Canadian National Railways, carries its capital. I mean to say, it might to the casual observer, but it does not make any difference to the real state of affairs.

Mr. MATTHEWS: Ordinarily, when interest would be accrued on deficits and treated as capital liabilities, then we would have to carry the other side of the thing to the extreme and expect to find it as a compensating asset item elsewhere if you are going to get a balanced picture. Otherwise you are just distorting the net result. That is the only point. I would say that the whole situation rests upon the fact that in this case the subsidiary company sets up a liability and the parent company writes it off and absorbs it into its loss. That kind of a picture is not sound.

Hon. Mr. MANION: If you have finished with that phase, Mr. Matthews, I would like to ask if you have ever read the recommendation of 1928—I presume you have—for recapitalization?

Mr. MATTHEWS: The Board of Audit?

Hon. Mr. MANION: No. There was a recommendation in 1928—my recollection is that it was 1928.

Mr. MATTHEWS: The Thornton recommendation?

Hon. Mr. MANION: Yes. Have you read that?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: That recommendation differs from yours by about \$200,000,000 or \$250,000,000. He recommended in 1928 to the government of that day—I am speaking from memory, but my recollection is pretty good, I think—that there should be something like \$800,000,000 cut off. Is that not about the figure, do you remember?

Mr. MATTHEWS: It was approximately \$800,000,000.

Hon. Mr. MANION: Yes, a little under \$800,000,000. You recommend cutting off about \$1,046,000,000, which is a difference of nearly \$300,000,000.

Mr. MATTHEWS: Accumulated interest and other items since that time.

Hon. Mr. MANION: Accumulation of what interest?

Mr. FRASER (Caribou): Principal.

Hon. Mr. MANION: Deficits and interest since? I do not think there is a accumulation of \$300,000,000 since 1928.

Mr. MATTHEWS: Doctor Manion—we will be very glad to furnish the reconciliation.

Hon. Mr. MANION: I would be glad to have that.

Mr. MATTHEWS: We can say that in the main it would be interest accruals and deficit advances.

Mr. HEAPS: Mr. Chairman, with reference to the statement made this morning in regard to the debts which show both in the national debt and in the Canadian National debt, have we any figure to show what the duplication really is?

Hon. Mr. MANION: Mr. Roberts is sitting beside you there. He can give you that better than anybody else in this room. Can you do that, Mr. Roberts?

Mr. ROBERTS: I am sorry, I was not listening at the moment and did not hear the question.

Hon. Mr. MANION: Would you repeat it, Mr. Heaps?

Mr. HEAPS: I was just asking if we had any figures to show what the duplication is of the debts of the Canadian National Railway system; that is, shown in the books of the Federal government.

Mr. MATTHEWS: I have already given that.

Mr. HANBURY: Yes. The figure is given here on page 3.

Mr. HEAPS: Do I understand that this figure of \$1,046,331,000 odd is shown as part of the debt of the federal government?

Mr. MATTHEWS: I would refer you to page 3, sections (a), (b), (c) of our report.

Hon. Mr. MANION: Parts of it, if it was paid out of the consolidated revenue. Is that not right?

Mr. MATTHEWS: It is partly in the net debt; but of the \$1,046,000,000, Mr. Heaps, if you refer to page 3-A, you will find there the two capital stock accounts (apart from \$10,000,000 direct costs) have never entered into the public debt picture at all; it is only the \$10,000,000 for the acquisition of the stocks that are taken into the net debt of Canada. The par balance was an acquisition, as it were, without cash consideration.

Hon. Mr. MANION: Mr. Matthews, you said it would be all net debt. See if I am right here. Suppose the government a few years ago paid off the deficit of \$20,000,000 out of the consolidated revenue. It would not be into the net debt.

Mr. MATTHEWS: The consolidated revenue fund is part of the net debt.

Hon. Mr. MANION: Yes, but suppose we had a surplus, suppose the government had a surplus of, say, \$10,000,000 of \$15,000,000. It would not appear in the net debt if used for interest or deficit?

Mr. MATTHEWS: As I said to Mr. Geary, or raised by taxation.

Hon. Mr. MANION: I just wanted that straightened out.

Mr. HEAPS: What is the present government debt of this country?

Hon. Mr. MANION: Around \$3,000,000,000, I think.

Mr. ROBERTS: The government of Canada owes three billion two hundred million dollars, made up of our funded debt of three billions on which we pay interest to the public, and two hundred millions in trust and different funds that we control, such as superannuation; the gross debt of the Dominion of Canada is about \$3,200,000,000. The only other liability we have is a contingent liability represented by guarantees outstanding, something about a billion dollars. That is the Dominion picture, giving everything.

Hon. Mr. MANION: Before you get away with that—I should not say with that but from that—in addition to that is there not another three or four hundred million dollars which we have not guaranteed and for which we are just as liable?

Mr. ROBERTS: \$200,000,000 odd.

Hon. Mr. MANION: I refer to the \$300,000,000 that we have not guaranteed, but for which we are liable.

Mr. ROBERTS: Now, when it comes to the relation of Dominion accounts with Railway accounts you are dealing with a situation as between the parent and a subsidiary organization, and the whole question is as to what the parent organization shows in its books as being due by the subsidiary organization and what the subsidiary organization shows as owing to the parent. The accounts are not in agreement on that. The railways show under liabilities to the Dominion a total of \$1,536,000,000 make up of loans, \$672,000,000 interest charged on same, \$459,000,000 and C.G.R. capital account, \$404,000,000. So far as the public accounts of the Dominion are concerned, on the assets side, the old Canadian government railways investment account of \$387,000,000 is shown simply as a capital expenditure. It is gone. It represents the expenditures of the past, and there is no interest accumulated or charged on that. The Canadian National railways, when they took over those government-owned lines, simply added into their account the amount of that investment; it was a routing bookkeeping representation of the situation as it existed when they took over the Canadian Government railways for operation. The \$16,000,000 of C.G.R. working capital stands in the public accounts as an actual asset. So far as the liability to the government of Canada for loans and advances are concerned, the 672,000,000 odd appear in our books as assets and because parliament authorized the Department of Finance to pay this money as loans, interest is charged at rates fixed at the time, some of them bearing 6 per cent. With the exception of a comparatively small amount, all these loans are shown as non-active assets and are therefore included in the net debt of the Dominion. When an advance is made we book it as an asset, not active, but as an asset. The railway company immediately put it in their books as a liability due to us. At the end of the year, they get a bill for interest and they enter this interest in their accounts as a further liability to the Dominion. So far as Dominion accounts are concerned the charge for interest is kept in memorandum form only and no entry is made as this would only complicate the Dominion accounts. Therefore, there will not be found in Public accounts any items corresponding to the \$459,000,000 of interest shown by the railways as due the government. It is apparent, of course, that in so far as the government has assumed debt obligations to advance this \$672,000,000 to the railways, the interest charge to the railways has been represented year by year by expenditures for interest on public debt charged to ordinary account.

Hon. Mr. MANION: Whatever you pay goes into interest on public debt?

Mr. ROBERTS: Yes; whatever is payable is through interest on public debt.

Mr. HEAPS: May I try to get this clear? We are told that the public sometimes have misconceptions and I believe that some of the members of the com-

mittee have also. I will try to get the matter boiled down. Of the \$3,000,000,000 of public debts do I understand there is included in that \$3,000,000,000, \$1,460,000,000?

Hon. Mr. MANION: Part of it.

Mr. HEAPS: I would like to know what part of it or how much.

Mr. ROBERTS: I think the answer is to the effect that all the expenditures, with the exception of the amounts for the capital stock of the Old Grand Trunk and Canadian Northern (for which the government made no cash payments except \$10,000,000 for Canadian Northern) have been absorbed through the Dominion accounts and our net debt has embraced all of that expenditure, with the exception of \$16,000,000 C.G.R. working capital and an amount for current advances.

Mr. HEAPS: I would like to get, if at all possible, a simple statement without any embellishment to show how much of Canadian National debts is included in that \$3,000,000,000 of government debt.

Hon. Mr. EULER: If I may say so in all modesty I can answer that question. I put that question on the order paper early in the session as the Minister knows and I was told that of the Canadian National railways debt a billion and a half is also included in the federal debt. There is a duplication of a billion and a half. I think it is a little more.

Mr. ROBERTS: I think the wording was "has been absorbed"; there is a difference. You cannot find the corresponding items there.

Mr. HEAPS: Am I right in assuming that of the \$3,000,000,000 of Canadian public debt owed by the federal government approximately one-half is Canadian National debt?

Hon. Mr. MANION: One-half, as Mr. Roberts says, has been absorbed at one time or another.

Mr. HEAPS: I want to know it in a definite way.

The CHAIRMAN: In other words, if we had never touched the railways would our debt be a billion and a half.

Mr. HEAPS: You can put it that way.

Hon. Mr. MANION: You can put it that way, but it would not be three billions.

Mr. HEAPS: I would like to find that out so that we can agree on that figure.

Mr. MATTHEWS: Mr. Heaps, I will make another attempt. I must confess I have not been very successful.

Mr. HEAPS: That is my fault.

Mr. MATTHEWS: I endeavoured to explain that point to Mr. Hanbury. If you will turn to page 2 of the report you will find the total amount of some \$1,817,000,000. If you take the \$1,817,000,000 and the \$265,000,000 of stock the only amount that is in the debt there is \$10,000,000. Now, that is \$255,000,000 to deduct from the total figure, and then there is \$15,000,000 of the \$404,000,000 of the Dominion appropriation. Roughly it is a billion and a half dollars, duplicated either in the present figures of the funded debt outstanding or duplicated by taxation paid in prior years.

Mr. HEAPS: Then, Mr. Matthews, what Colonel Geary has said is approximately correct, according to your ideas?

Mr. MATTHEWS: Approximately a billion and a half duplicated either in the existing figures or in the combination of the existing figures and the taxation in past years and in the latter particularly in regard to the interest.

Mr. HEAPS: If that is the interest figure, then we get a picture of the whole situation.

Mr. MATTHEWS: Yes.

Mr. HANBURY: Perhaps, Mr. Matthews, you could go a little further and reconcile the one billion and a half with the figure of \$1,046,000,000 on page 3?

Mr. MATTHEWS: First of all, if you take the \$1,817,000,000 and deduct \$1,046,000,000 and non-cash deficit items for 1934 you get \$765,000,000, which is the value of the capital stock—at the top of page 9—plus the value of Crown property appropriation \$404,000,000, roughly. In other words, you take \$1,817,000,000 and you write these adjustments out and you have left advances for capital purposes the value of the Canadian Northern stock and the Canadian Government railways less the impairment of capital in 1934.

Mr. CANTLEY: On former occasions we got a small pamphlet showing the operations of the Canadian Mercantile Marine, the number of vessels and where they were; are we to receive such a pamphlet this year?

Hon. Mr. MANION: They were distributed this morning, and you can get them.

The CHAIRMAN: We will have to ask for permission to sit while the House is in session. We will do that and meet again at 4.30.

The committee adjourned at 1 p.m. to resume at 4.30 p.m.

The committee resumed at 4.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Had we finished with Mr. Matthews?

Mr. HANBURY: I think not.

Mr. HEAPS: Mr. Chairman, when we adjourned we were still in a state of confusion in regard to the national debt—

Mr. GRAY: Let us wipe it all out.

The CHAIRMAN: And start afresh. How far had you proceeded in your appendix, Mr. Matthews? I think you were at 1 (e), were you not?

Mr. MATTHEWS: Yes, page 7.

The CHAIRMAN: Of the appendix?

Mr. MATTHEWS: Page 7, of the report itself. In other words, we have dealt with the main ideas in recommendation 1, which was the adjustment of the published balance sheet of the railways.

The CHAIRMAN: That ran us down to 1 (e)?

Mr. MATTHEWS: Yes.

The CHAIRMAN: Of the recommendations on page 7.

Mr. MATTHEWS: Yes.

Mr. HEAPS: I do not want to start the discussion all over again, but there is still some confusion on the question of debts and the question of duplication, that I should like cleared up in my mind, because I am one of those who has been rather confused as to the relative position of the two.

The CHAIRMAN: You are now trying to confuse the rest of us.

Mr. HEAPS: I do not think I could do that.

Hon. Mr. MANION: May I, as a layman, like yourself, not a lawyer or a financial expert, of any kind, just in a couple of sentences, say what I conceive to be the national debt and its relation to the railways. I think I can do it very briefly, because I have given a great deal of study to it, naturally. In the first place, the national debt—leaving aside railways for the moment—is in round figures, \$2,800,000,000 or \$2,900,000,000. It does not matter whether we have the exact figure or not, but to find that figure all you have to do is to look up

the public accounts, but it is in the neighbourhood of \$3,000,000,000. In addition to that there is a sum owing by the Canadian National Railways on bonds for which the public has paid cash, in round figures \$1,300,000,000.

Hon. Mr. EULER: Not in addition to the \$2,800,000,000?

Hon. Mr. MANION: Yes. Let me finish. There is between \$1,200,000,000 and \$1,300,000,000 owing by the C.N. Railways, about 75 per cent, in round figures, of which we have guaranteed. To my mind it does not matter whether we have guaranteed it or not; we are just as liable, because a lot of the bonds are on parts of the railways which unlike the Guelph Suburban that Mr. Euler mentioned this morning, could not be swept aside. So that the debt of the people of Canada to-day—I am speaking here of the Dominion government; is that figure, whatever it is, in the public accounts, which is close to \$3,000,000,000 plus the \$1,200,000,000 owing by the Canadian National Railways, most of which we have guaranteed. In other words there is in round figures a little over \$4,000,000,000. Now, in regard to the balance of railway liabilities they are in government account—either absorbed in our debt of \$3,000,000,000 or paid from time to time out of consolidated revenue. That is the whole picture, so far as I know, and I think it is perfectly clear and perfectly true in the way I have given it.

Mr. HANBURY: If you do not mind my asking you this question, I should like to get this clear in my mind: if there never had been any connection between the C.N. Railways and the government is it fair to assume that the total national debt of \$3,000,000,000 would have been \$1,500,000,000 less?

Hon. Mr. MANION: No, I do not think it is.

Mr. HANBURY: That is the statement made this morning.

Hon. Mr. MANION: I think that is not the statement. It would be considerably less. How much less, I do not know, because some of it has been paid over the years by various governments out of revenue as they came in. That \$1,500,000,000 which shows against the railways in the railway books, as I have pointed out at various times, has been partly paid out of current revenue and part of it is incorporated in the national debt. What the exact figures are, I do not know, but undoubtedly if we had never had a government railway we would not have had as big a debt, but I do not say by \$1,500,000,000.

Mr. HEAPS: Let us taken then, this very simple illustration. It was claimed this morning that there is duplication in the accounts of the federal government and in regard to the Canadian National railway of approximately \$1,500,000,000. Now, if such is the case, let us assume that the Canadian national debt is \$3,000,000,000 and let us assume that the Canadian National Railway debt is \$5,500,000,000. Am I to assume that there is a duplication of \$1,500,000,000 in the net debt and both combined is \$4,000,000,000?

Hon. Mr. MANION: There is a duplication in the debt of a considerable sum, but some of it has been paid out of current account, as we went along, so therefore there is not a duplication of the total railway debt.

Mr. HANBURY: Let me interject there. If the money paid out of current revenue by the government which you refer to had not been paid out for the purposes of the C.N. Railway, could we not have reduced the federal debt by a like amount?

Hon. Mr. MANION: That is what I said when you laughed this morning; that is exactly what I said this morning.

Mr. HANBURY: What I am saying is this, using that, would not the debt have been \$1,500,000,000?

Hon. Mr. MANION: No, not in the total debt to-day, for the reason that as the various governments in the past went along—and this present government—they paid out of revenue a certain amount towards the railway, some of which

is charged up in our debt, but some of it was out of revenue we earned. Suppose we had a surplus of \$30,000,000, that \$30,000,000 was simply absorbed in the expenses. Let me see if I can illustrate it this way: suppose you had an income of \$10,000 a year.

Mr. HANBURY: Carried.

Hon. Mr. MANION: You spent \$8,000 and you had \$2,000 to spare, which you lent to somebody. You would not have a debt of \$2,000 because you had \$2,000 to spare, but that would not change the fact that you were owed \$2,000. Do you follow what I mean?

Mr. HANBURY: Yes.

Mr. DUFF: Tweedledum and tweedledee.

Mr. HANBURY: I think you have overlooked the fact that the federal government have a very heavy obligation on which they have been paying interest. If there had never been the Canadian National Railways, or if they had not handed that money to the Canadian National Railways, it could have been used to reduce the debt, and it was stated here this morning that the accruals from the various channels amounted to \$1,500,000,000.

The CHAIRMAN: It is a matter really of computation.

Mr. HANBURY: That statement was made here this morning.

Hon. Mr. MANION: I think it would have, but we might not have used it in that way. It might have been thrown in to something else.

Mr. FRASER: We might not have levied for it in the taxation.

The CHAIRMAN: We use the word "duplication" but that is not the exact word to use. It is not exactly the word to use. There is no duplication here; it is a matter of the same sum appearing in two different accounts.

Mr. HEAPS: What would that be?

The CHAIRMAN: It is not duplication.

Mr. HEAPS: Is there any way of finding the debt?

Mr. GRAY: It has not been spent twice, in other words.

The CHAIRMAN: No not at all. What you meant is that it appears in the public debt and also appears in the debt of one of the subsidiaries of the government. There may be other subsidiaries in the same position.

Mr. HEAPS: Have we any way of ascertaining definitely the net amount that appears by way of duplication?

The CHAIRMAN: No, nobody has stated that the net debt of the country is the national debt plus the Canadian National railways debt.

Mr. HEAPS: I think that is the common understanding. I should like to have that removed if it is not accurate.

Hon. Mr. MANION: Duplication of bookkeeping?

Mr. HEAPS: Could we not get some figures that would be understandable?

Hon. Mr. MANION: I do not suppose it would be possible to get an answer. This has gone on since confederation. Parts of the liabilities shown in the books are those which are applicable to the Intercolonial Railway. I do not suppose you could go back and figure out those amounts. No interest has ever been charged on the Intercolonial investment, and yet along the line of Mr. Hanbury's statement of a few moments ago, which I agree with, you might say if we had never built the Intercolonial the interest on the capital investment would have been saved; and could have been used to pay interest on the government debt. I do not think it is possible to make up such a statement as you suggest.

Sir EUGENE Fiset: Is it not possible for Mr. Roberts to prepare for the information of the committee a statement showing what the debt is at the present time and compare it with the Canadian National debt; give us a statement to that effect.

Hon. Mr. MANION: Mr. Roberts is not here but I will draw it to his attention.

The CHAIRMAN: Mr. Matthews I think you were at page 7, recommendation 2 of your report.

Mr. MATTHEWS: Having dealt with the adjustment of the published balance sheet of the C. N. Railways, the next proposal is to deal with the public accounts insofar as they are affected by the National railways. In the first place as I have said before, outside of current advances of which there are about \$17,000,000; there are only \$15,000,000 of assets of the Canadian government railways on current account taken over by the Canadian National railways at the time that the Canadian government railways were handed over to them for operation. That is all that would be added to the net debt of Canada if this proposal were carried out. In the second place the step would be the reclassification between what might be termed the capital expenditure division of the net debt of Canada and that which is referred to as the consolidated fund which might be described in a commercial sense as the deficit account of the enterprise; the most important step as we see it in the adjustment of public accounts, or if you like in the further detailing of public accounts, is the answer to the strong objection that has been made against these proposals in respect to the loss of perpetuity, the loss of continuity or loss of totality of the Canadian National Railways accumulated cost to the country.

On page 8 we have tried to meet that situation by outlining the information, if parliament deemed it necessary, that would forever maintain a record of the total cost in whatever detail or to whatever extent parliament may wish; and after all the record that many people think is now embodied in the Canadian National Railways published accounts as the cost is not so at all. We endeavoured to explain that to the committee here last year and we gave you a statement at that time of the items that were not then embodied in the liabilities to the dominion, deficits made good in prior years, subsidies and so forth. So that when we get down to the question of cost to the country the important point we would like to leave with you is that on page 8 we have outlined the best plan by which in our opinion very important record of cost to the country can be maintained. The argument has been made very strongly in many quarters that the proposals which we have made would somehow or other cause a disturbance to the record, and that on the resumption of good times past expenditures would be quickly forgotten and the country would be plunged into an orgy of future expenditure. Page 8 is our suggestion to meet that situation, and it would be in the place where we think it logically belongs, that is in public accounts. After all, that is the official record or the official basis upon which parliament from year to year could consider what the accumulated cost of this natural system project had been. Certainly the present Canadian National Railways accounts do not and never have since we have had anything to do with them show what are the total costs. They deal with what the government from year to year have set out to be the liability, depending upon the legislation of the different years. For instance the amount of money that was contributed in 1934 by the government to redeem the eastern lines, Maritimes Freight Rates Act deficits and the deficits of the Canadian National Railways proper, prior to 1927 would have been considered as an advance, and would have been set up as a liability in the books of the Canadian National Railways system. To-day they are not in there. Why? Change in legislation, and so forth. The third recommendation has to do with the exchange of the dominion's present capital stock holdings in the Canadian National Railway company which is the share certificate of some \$180,000,000 issued after the Grand Trunk arbitration award, plus stock holdings in the Canadian Northern, together with loans, advances, interest, accruals and so forth, excluding Canadian government railways.

On page 9 the figure of \$361,000,000 is shown and that is made up in this way: if you refer again to the \$1,817,000,000 figure on page 2 and if you apply against that the proposed write-offs of capital stock declared by arbitration to be worthless, advances for deficits and advances for interest etc, you have a residual figure of some \$765,000,000 which embodies the arbitration value of the common stock of the Canadian Northern, the dominion loans for capital purposes less the impairment of the shareholders' capital during the current year, 1934. There is also the Canadian Government Railways of \$404,000,000. Now some may ask why do you exclude Canadian government railways from the stock. There has been some controversy on the question of the Intercolonial railway in its relationship to past legislation and it is our judgment that for the time being at least, it would be more properly dealt with as an appropriation. It makes no difference whatever to the general plan whether it be covered by stock or left as an appropriation.

Hon. Mr. MANION: Before you get away from that, may I ask you a question? I notice here, if I understood what you said aright, on page 9 you show \$765,000,000 as in a sense government account; is that right?

Mr. MATTHEWS: Equity remaining to the shareholders.

Hon. Mr. MANION: In the Canadian National annual statement which we received this year page 30 shows government account to a total of \$1,500,000,000 in round figures.

Mr. MATTHEWS: Plus capital stock. \$1,800,000,000 includes capital stock.

Hon. Mr. MANION: That answers the question. I see what you mean. I was going to say if you subtract one from the other it would not agree with your thousand million. But one must add in capital stock. I see your idea now.

Mr. MATTHEWS: Is it clear, now, Dr. Manion?

Hon. Mr. MANION: That answers the question, I did not follow it.

Mr. MATTHEWS: On page 9 we make a passing reference to this question of no par stock. Last year we did include the definite proposal that the capital stock be no par. This year we have not made that a definite proposal for the reason we understand there is some question in the minds of the government as to future legislation in respect of no par stock. Now we say here again that is immaterial. It is only for flexibility or for convenience in the changing values of the shareholders' equity in future years. This changing equity will be governed by capital advance, non-cash deficit items, etc.

Mr. GRAY: You do not think we will be selling any of it?

Mr. MATTHEWS: And furthermore, there is this to be borne in mind: no par stock, which has been under some condemnation in recent years has been of a corporate nature and of course no par stock for the Dominion would not be subject to the same arguments as those applicable against private corporations. However in order to avoid any controversy on that point we left it open. It is immaterial.

Hon. Mr. EULER: Mr. Matthews, going back to what we were speaking of a while ago. What is the total debt of the railways to the Dominion government?

Mr. MATTHEWS: On page 2 again.

Hon. Mr. EULER: The balance sheet?

Mr. MATTHEWS: Page 13—

Hon. Mr. EULER: What page?

Mr. MATTHEWS: Page 13 of the printed report.

Hon. Mr. EULER: Yes.

Mr. MATTHEWS: These figures are taken from that. \$265,000,000 first of all.

Mr. HANBURY: What page?

Mr. MATTHEWS: Page 2 of the report. Mr. Euler is reading from the printed accounts.

Hon. Mr. EULER: \$270,000,000.

Mr. MATTHEWS: \$265,000,000 as intimated is now held by the government, next a figure of \$15,142,633.33 of old Grand Trunk debentures referred to in the printed accounts as advances prior to Confederation by the province of Canada, and the advances for loans and deficits which amount to some \$672,000,000.

Hon. Mr. EULER: Where is that, one page 13?

Mr. MATTHEWS: This is loans and advances.

Hon. Mr. EULER: All right.

Mr. MATTHEWS: Interest accrued \$459,000,000 and the Dominion capital appropriations, Canadian government railways, \$404,000,000.

Hon. Mr. EULER: Right.

Mr. MATTHEWS: Now, that makes up a total Dominion of Canada account—

Hon. Mr. EULER: How much is that?

Mr. MATTHEWS: \$1,817,000,000.

Hon. Mr. EULER: That is the total debt to the government?

Mr. MATTHEWS: That is the total debt to the government including capital stock.

Hon. Mr. EULER: Then there is funded debt to the public of about \$1,250,000,000?

Mr. MATTHEWS: That is right.

Hon. Mr. EULER: But these two items summed up make the total liabilities of the railways.

Mr. MATTHEWS: Plus their current liabilities.

Hon. Mr. EULER: All right, that is what I was coming to. That makes about \$2,800,000,000? How much do you get when you add them all together?

Mr. MATTHEWS: Approximately \$3,000,000,000.

Hon. Mr. EULER: But I understand the minister to say you have got to take that \$3,000,000,000 and add to it the funded debt.

Hon. Mr. MANION: No.

Hon. Mr. EULER: I want that clear. I understood you to say that, and I have been worrying about it ever since—it is only \$1,000,000,000. Is this clear then, that the debt to the government by the railways is about \$1,800,000,000 in round figures?

Mr. MATTHEWS: That is correct, including capital stock.

Hon. Mr. EULER: And then the funded debt to the bondholders is another \$1,250,000,000, making a total of \$3,000,000,000.

Mr. MATTHEWS: That is correct.

Hon. Mr. EULER: I definitely understood the minister to say you have to add to that—

Hon. Mr. MANION: No. I was explaining to Mr. Heaps in my humble way that the Dominion government federal debt—nothing to do with the railways—was in round figures \$3,000,000,000, and then you have to add in the collateral debt, \$1,246,000,000, of the railways for which we are also responsible.

The CHAIRMAN: May I question you concerning this point: you have stock of \$765,000,000—call it what you like—

Mr. MATTHEWS: Yes, stock and appropriations.

The CHAIRMAN: And an outstanding indebtedness of \$1,280,000,000.

Mr. MATTHEWS: Roughly, \$1,246,000,000.

The CHAIRMAN: Adding to the indebtedness to the equity you get a certain amount. Do you reconcile that with your figures here?

Mr. MATTHEWS: Yes. I can give it to you here. You can start with the \$1,817,000,000 on page 2 and deduct the write-off of \$1,046,000,000 and deduct the impairments of the shareholders' capital during the current year not made up in cash—

The CHAIRMAN: How much is that?

Mr. MATTHEWS: \$5,479,000 odd and you get \$765,000,000. I have the statement here, Mr. Geary, if it would be of any help to you.

Hon. Mr. MANION: May I ask you one question about the government debt. I know what the answer will be, but I want to make it clear. Of that \$1,800,000,000 on the books of the railway shown as government debt of one kind or another nothing has ever been paid in principal or interest; is that right?

Mr. MATTHEWS: Yes, that is right.

Hon. Mr. MANION: I want to make that clear.

Mr. MATTHEWS: When I say nothing, I have in mind that there might have been an exchange of money back from the railway to reduce loans temporarily but, speaking generally, your statement is the fact.

Hon. Mr. MANION: There has been nothing paid on that either in principal or interest.

Mr. BOTHWELL: In that \$1,800,000,000 there is \$100,000,000 odd. As I understand this only a part of that was paid?

Mr. MATTHEWS: The \$100,000,000? Yes, Mr. Bothwell, that is right. In the Canadian Northern arbitration the government paid \$10,000,000 for the 600,000 shares that Mackenzie and Mann owned as the contractors of the road, and in the Drayton, Acworth report of 1917 it was brought out that the stock was issued to them in lieu of contractors' commissions. Now, then, in the arbitration award they predicated a value of \$10,800,000 for those 600,000 shares, so that on that basis it gives a value to the stock of \$18,000,000. That write-out is \$82,000,000.

Mr. BOTHWELL: So that then actually that \$1,800,000,000 that is set out in page 2 is not the actual figure of moneys owing by the Canadian National railways to the government?

Mr. MATTHEWS: Not strictly—it includes capital stocks. As I have said, in the next page, 3-A in explaining the misconception we pointed out that the misconception from the asset side.

Mr. BOTHWELL: I understand that. I was wondering if I was mixed up.

Mr. MATTHEWS: You are quite right. The only cash consideration in the \$265,000,000 actually is \$10,000,000. Again that is confusing.

Hon. Mr. MANION: There is that \$18,000,000.

Mr. MATTHEWS: Not cash, excepting that you might take the subsidies as cash. There were subsidies given to the Canadian Northern railway in those days—a subsidy for \$7,000,000 which we refer to in the appendix. You can see that on page 4 of the appendix. Outside of that it can be said of the \$265,000,000 there is no cash consideration.

Hon. Mr. EULER: And yet it is held as a debt owing by the railways to the government. The government never paid anything for it, except \$10,000,000.

Mr. MATTHEWS: The \$10,000,000. It might be argued, of course, that the \$7,000,000 of subsidies were referred to, but that was not considered as part of the cost—part of the advance or loan or the purchase price of the stock. The purchase

price of the stock was set at a maximum of \$10,000,000 before the arbitration started.

Hon. Mr. MANION: That figure, Mr. Matthews, has been in there since the consolidated balance sheet was first made up in 1923, has it not?

Mr. MATTHEWS: Quite right.

Hon. Mr. EULER: There is \$255,000,000 charged against the railways by the government. The railways credit the government with \$255,000,000 for which the government never paid a cent.

Mr. MATTHEWS: That is right. Capital stock—leaving out the question of subsidy which I think only confuses us for the oment.

Hon. Mr. EULER: It would be pretty difficult to argue that that amount should be charged against the railways.

Hon. Mr. MANION: I admitted, Mr. Euler, in the House the other day when you and I were arguing on this matter—or when Mr. Munn had a resolution—I admitted that those items might well be argued, but nobody has ever proposed recapitalizing only on those items. I do not think they ever should have been put there. I think the mistake was made in 1923 when they were put there. They have been there all this time, and when we begin arguing on that we get into the whole question of recapitalization. That is the difficulty.

Hon. Mr. EULER: So far we are agreed that that \$255,000,000 ought to come out.

Hon. Mr. MANION: I have often agreed with you before.

The CHAIRMAN: That represents assets.

Hon. Mr. EULER: They did not pay anything for them.

The CHAIRMAN: They did not pay anything, but we got them because the arbitration tribunal refused to value them because they were not earning money; they refused to say whether they had any value as material; they simply said that they were of no value to the government because they were not earning money.

Hon. Mr. MANION: Remember, Mr. Chairman,—I am saying this to try to keep the record as straight as possible—probably at the same time there were bonds anterior to those on which they did put a valuation and upon which we are paying interest.

The CHAIRMAN: Oh, yes, that is quite true. They said that this stock was earning no money and had no value when transferred to the government, and they refused to accede to the request of the government and to say, "let us see what the assets are that will be represented by this stock."

Hon. Mr. EULER: If the government did not pay anything for it, why do they expect the railways to pay anything to them?

Hon. Mr. MANION: They do not. The Government never got anything on account of that.

Mr. MATTHEWS: There is one further point about the question of value. As Mr. Geary has pointed out, the Grand Trunk shareholders took that appeal to the privy council in London, and it was on a question of law as to whether the majority of the arbitrators erred in their decision not to admit the value of the property as evidence, and the privy council agreed with the majority award and dismissed the appeal. But as I pointed out this morning, Mr. Geary, during the course of the arbitration the arbitration auditors made an examination of the investment in road and equipment of the Grand Trunk and they found \$129,000,000 in their examination that should be written out. Now, that is the first thing we had in mind in the application of the adjustment of the capital stock.

Hon. Mr. EULER: Not even that value is there; that is admitted.

Mr. MATTHEWS: No. They said that they knew the \$129,000,000 should be written out.

The CHAIRMAN: Who are the accountants?

Mr. MATTHEWS: The arbitration auditors. I think it was Mr. Brown at that time.

The CHAIRMAN: Yes, but they did not allow the evidence of the other side to be put in.

Mr. MATTHEWS: I am not here to take up the cudgels one way or the other on that question of arbitration procedure. It is a question of fact.

The CHAIRMAN: As a matter of fact they went to the privy council on a pure question of law, not of fact and it was urged that the arbitrators should have admitted evidence as to the cost of reproduction new less depreciation. No one says for a moment now that the valuation of the board of arbitration was incorrect.

Mr. MATTHEWS: In the case of the Canadian Northern arbitration they differed slightly from the Grand Trunk. The Grand Trunk arbitrators seemed to emphasize earning power, whereas the Canadian Northern board of arbitrators seemed to give a little more consideration to the physical side of it although they said that primarily it resolved itself into a question of earnings. They did call in Professor Swain and they went to considerable expense and trouble in having a reproduction valuation made of the properties, and they apparently gave it consideration in their decision although in spite of what it still left the property account considerably overstated.

The CHAIRMAN: There have been many arbitrations where the reproduction costs less depreciation has been the basis of valuation.

Mr. MATTHEWS: Quite true.

Hon. Mr. EULER: Even if that were true, why should the government of Canada as a government get that profit just in taking over those railways,—if there was any profit,—getting those assets for nothing. Should not the railway get the benefit of that?

Mr. MATTHEWS: The boards of arbitration of 1918 and 1921 brought down decisions on a given basis and they did differ a little on this question of properties.

Hon. Mr. MANION: This question has been fairly well argued. May I suggest, and I do so with all respect, that it is just as well for us not to go too deeply into the question of the old Grand Trunk. There are lawyers still acting for the Grand Trunk in England—or they think they are acting in the case of some of them—and continually attacking all governments in regard to that. I do not know whether we should go into that if we can avoid it any more than is absolutely necessary. I say that without any ulterior motive.

The CHAIRMAN: I do not think that there is anybody disputing the fact that they were properly valued.

Mr. MATTHEWS: Of course, there is just this question that the continuing of these accounts in the published balance sheet of the Canadian National railway system is one of the factors for consideration as to the reason why these disputes continue. Certain investors take the position naturally that by arbitration these stocks were declared worthless and the assets naturally must have been without value, and yet those who succeed them in ownership continue to show them as good assets. Now, there is this psychological question which comes first, the hen or the egg; we do not know.

Hon. Mr. EULER: It is almost an admission on the part of the Canadian government that there is value there, else why should the railways be carrying that as a liability to the government? If it is a liability to the government it must also be an asset as coming from the railways.

Mr. MATTHEWS: That is precisely what we have said in our report.

Hon. Mr. EULER: Certainly.

Mr. MATTHEWS: Now, we got down to the bottom of page 9 where we had shown the original Dominion of Canada account of \$1,800,000,000. Take the write-offs and work down to what remains as the equity of the share-holder. And bye the bye, Mr. Euler, I think the confusion arises from the fact that it is \$3,000,000,000 in both places, both in the public accounts and in the Canadian National. On page 10 we outline the effect of such an exchange. First of all, the status of the Dominion would not be altered. That is to say any assets that now or in the future exist would belong to the Dominion in the same way as they now belong, because, after all, the Dominion, no matter how far it may insist upon the creation of these liabilities on the books of the railways, cannot step in ahead of the public claims as represented by the bonds and so forth. In the second place, the control by the Dominion of all corporate units of the National system would be centralized through the Canadian National railway company. That takes us back again. At the time the arbitration of the Grand Trunk was concluded there was a certificate issued to the Minister of Finance for some \$180,000,000 which represented the \$165,000,000 plus the treasury stock of \$14,000,000. It was issued by the Canadian National railway company, the Canadian Northern capital stock of \$100,000,000 was taken over by the government direct. So that you have the condition since that time of the Canadian National railway company being the banker for the enterprise and advancing money to the Canadian Northern and not controlling that company. Now, our proposal is that the capital stock of the Canadian Northern now held by the Dominion government be surrendered to the Canadian National railway company and in exchange there would be included whatever value—which is the \$18,000,000—in the total issue of the \$361,000,000 mentioned on page 9.

In the third place, we have already discussed the effect on the net debt of the Dominion of Canada, and there is little use in discussing that further. The appropriation account of the C.G.R. would remain unchanged. The amount of loans for capital purposes would remain unchanged.

Just at that point, Dr. Manion, this morning there may have been just a little confusion on the assets in regard to the \$1,046,000,000; but we were there dealing with interest. There is no disturbance of the advances themselves which, I think, we must assume are covered by assets. The arbitration value of the Canadian Northern railway capital stock would be set up and the findings of the Grand Trunk board of arbitration would be made effective in the accounts. In the appendix the further explanatory analysis of the proposals is given in detail, and that is available for the reading of the committee. The appendix runs from sheets 1 to 14.

Hon. Mr. MANION: May I ask a question that has no bearing at this point. Last year Mr. Matthews put in a statement very much along the line of this one. Now, is there any important modification in your suggestions of last years and this year?

Mr. MATTHEWS: Dr. Manion, in the first report we made last year we were brief, and later, if you will recall, in the meeting of the 7th of June we presented some more information, and then for the meeting of the 20th of June there was still further information. Now, this report is, as we have said, co-ordinated in orderly fashion with the figures adjusted to 1934, and with any additional points that we felt would be helpful for the consideration of parliament.

Hon. Mr. MANION: There are no important changes of any kind, are there?

Mr. MATTHEWS: Oh, no. There are no important changes. It is only what might be called a co-ordinated amplification of what was given in 1934 the report to parliament and the two memoranda prepared for the committee.

Hon. Mr. EULER: Is this the gist of your recommendation, that the amount of capital stock of the two old companies, the advances for deficits, the interest accrued, totalling \$1,046,000,000 should be written off for the reason, as I said this morning, that there are no actual assets there. And then in addition to that you suggest that the balance of something like \$700,000,000 instead of being carried on the books as a liability upon which certain persons like to reckon interest, would be cancelled by the issue of common capital stock to the government?

Mr. MATTHEWS: The \$765,000,000 at the bottom of page 9 would be covered partly by capital stock, in respect of corporate advances, and the Canadian Government railways shareholders' appropriation account. The shareholders' total equity would be \$765,000,000. It would be in the form of an equity and not a liability.

Hon. Mr. EULER: That would mean a capital set-up of the amount of stock that will be issued to the government, some \$765,000,000, plus the bonded indebtedness to the public of about one billion and a quarter.

Mr. MATTHEWS: It does not make any difference whether the Canadian Government railways are covered by common stock or not, but we feel that the question of the Intercolonial in its relationship to prior legislation is something that requires further consideration. The \$765,000,000 would be shareholders' equity represented by capital stock \$361,000,000, and the shareholders' appropriation of the C.G.R., and on top of that there would remain the bonds in the hands of the public aggregating one billion and a quarter approximately plus the current liabilities.

The CHAIRMAN: Am I right in this? You take the figure on page 2 and you subtract from it the figure on page 3; you subtract the impairment of shareholders capital during 1934.

Mr. MATTHEWS: Yes.

The CHAIRMAN: Which was the sum issued for advances.

Mr. MATTHEWS: These are non cash items; they are losses not reimbursed by the shareholders.

The CHAIRMAN: That is how you get your \$765,000,000?

Mr. MATTHEWS: That is right.

The CHAIRMAN: And you deduct from that item \$404,000,000 which appears on page 9?

Mr. MATTHEWS: Yes; rather than in the form of capital stock, because we hesitate with the discussion on the question of the Maritime Provinces in relation to the Intercolonial—

The CHAIRMAN: You leave that out of your capital stock?

Mr. MATTHEWS: Yes, but as a part of the shareholders' equity. It makes no difference in the set-up whether it is capital stock or a credit in account.

The CHAIRMAN: Does your whole general statement of recommendations of writing down to capitalization necessitate the adoption of recommendation 3?

Mr. MATTHEWS: Well, now, let me see. What is your thought there, Mr. Geary? Is it that you would just make the entries on the books of the National railways and just leave the stocks as they are—leave the Canadian Northern stocks as they are, and the Grand Trunk and Canadian National stock as it is, \$180,000,000? It would be a little difficult, I would say that recommendation 3 is a very definite supporting part of the plan.

The CHAIRMAN: You think that is an essential part of your plan?

Mr. MATTHEWS: I do, sir. I do not see how you could carry out this plan without doing that.

Mr. HANBURY: Before Mr. Matthews leaves his recommendations. I think you said, Mr. Matthews, in answer to a question which I put this morning that you had some recommendations to make basing valuations on the physical value or on the earning capacity; but I do not see anything in here in that connection

Mr. MATTHEWS: I say we deal with that factor in the answer to the objections. It has been raised as an objection that these proposals do not extend far enough to allow for the write-down necessary to meet the established earning power of the railway or the utility value to the Dominion. Now, that is covered in these objections. There is one more recommendation. Is it the wish of the committee that I should continue to complete the recommendation number 42. The question of publicity. Our thought is that if parliament at any time in the future saw fit to adopt these proposals one of the important things would be publicity of the fact in as many ways as possible that whatever equity remains on the Canadian National railways' published accounts it is already embodied in the net debt of Canada (or absorbed in taxation). So that on page 11 recommendation 4 we made a special point in the second paragraph in which we suggest the consideration—just as a case in point—if we could visualize for a moment a new set-up in this balance sheet, and instead of having these various liabilities and capital stocks to the Dominion of Canada there was a figure in there of \$765,000,000 as covered on page 9—which is the residual value—and have a statement definitely made there that this is already embodied in the net debt of Canada. In other words, it would just make the step final that there could not be a continuance of confusion in that respect having once established the proper set-up in relation to the Dominion's equity. Then make the definite statement public in each year's accounts that this is already embodied in the net debt of Canada. That is one of the means that we have in mind about publicity. Of course there are other means, such as public accounts.

Now, gentlemen, subject to a detailed reading of our report and the appendices attached this covers the general outline of the recommendations in regard to the question.

And then we move on to the matter of obligations. Now, the only purpose we have in setting out these objections is that parliament may have the widest range of differing viewpoint. We have no wish whatever to impose our opinions upon anyone. We feel, therefore, that it is very necessary that you have the widest range of different viewpoints on the matter—one of such importance as this and that has been under study so many times and in connection with which so much money has been spent in one way or another. We would like to correct the impression that we have any wish to put wooden men up to knock them down. These are all genuine objections raised in the last year either in the public press, by public statements of men well known in Canada or remarks that have been made on the floor of the House of Commons, or remarks that have been made within our hearing in the committee. Mainly these are the sources. There have been two or three from private sources that we considered sufficiently important financially to embody. If it is the wish of the committee to consider these objections in the light of the other side of this picture we shall be very glad to lend further assistance.

Hon. Mr. EULER: I think the subject is of sufficient importance to go into it exhaustively. The objections are there. I understand you are answering those objections, and members of the committee might raise other objections.

Mr. MATTHEWS: We are prepared to deal with the objections.

The CHAIRMAN: Let us get through with them as quickly as possible. We have the officials from the railway here and I think we should make a start with them. You will be present on Tuesday, Mr. Matthews?

Mr. MATTHEWS: Yes.

The CHAIRMAN: Very well. Let us hear the officials now.

Mr. HANBURY: I should like to hear someone in connection with the new plan of insurance and retirement which I understand has been adopted—a new pension plan. I should like Mr. Fairweather to explain briefly what the new plan is.

Mr. FAIRWEATHER: The new pension plan?

The CHAIRMAN: Where does it appear?

Mr. GRAY: On page 9.

The CHAIRMAN: That is in the first part of the plan. I would rather we did not go into any of the accounts this afternoon.

Mr. FAIRWEATHER: During the year 1933 serious consideration was given to the pension plan of the Canadian National Railways. It was a non contributory plan and it was getting to create liabilities that were much greater than could be effected with equanimity. In any event, a plan was developed which is partly non contributory and partly contributory which will have the effect of reducing somewhat the company's cost of pensions but which at the same time enables the employees, if they so desire, to get larger pensions by contributing.

Mr. GRAY: A voluntary plan?

Mr. FAIRWEATHER: A voluntary system; and it also enables them to get those pensions in a form which will protect their dependents in addition to themselves. A plan as indicated was worked out by the company and laid before representatives of the men and was accepted by them, and I think has proved our policy. At the present time it is in the second month of operation and there are 18,000 contributors. The plan differs widely from the old plan but it is a plan that is modern in its type. The old plan was very simple in its form and provided that one per cent of an employee's compensation in each year of his service would be paid to him in the form of pension when he was pensioned. So that if a man had 30 years service he would get 30 per cent of his past average ten years compensation in the form of pension.

Mr. HANBURY: To which he did not contribute at all?

Mr. FAIRWEATHER: To which he did not contribute at all. The new plan provides that a man retiring gets a pension which is partly non contributory and partly contributory. The non contributory portion of it represents whatever pension, let us say, equity or rights he had on December 31st, 1934, when the new plan came into effect. For instance, an employee who was in service and had 20 years of service at the end of 1934 might at that time be 55 years of age. His pension rights would be established in the main on the 20 per cent of his average past ten years up to the end of 1934.

Mr. HANBURY: The company absorbed that liability?

Mr. FAIRWEATHER: Yes; and then when he reached pension age that would be given to him as a pension to be borne by the company only he did not have to pay any contribution to that. But he would be enabled under the plan to supplement that pension by contributing and his contributions are entirely voluntary and would be in any amount up to 10 per cent of his pay and the company would match that up to 5 per cent and the money—

Mr. HANBURY: Fifty per cent of his pension?

Mr. FAIRWEATHER: Well no, it would match per cent for per cent up to 5. Then if he went beyond 5 he would be contributing himself; the company would not contribute beyond 5 per cent. And the monies obtained from the employees' contributions would be invested in Dominion government bonds and

held in a fund and at the end of the period the monies would be used to purchase supplementary annuities. It may sound a little complicated but it is really quite simple. In that way the employee would get a bigger pension than he would under the old plan and the company's cost would not be so great. In addition to that the plan provided when a man desired to protect the age of his wife, he could do it by asking a smaller pension which would be adjusted on the real value of what is called "joint survivor annuity," instead of a simple pension. For new employees the maximum amount of non contributory pension was fixed at \$300 a year. That is, for an employee coming into the service new.

Sir EUGENE Fiset: Only for new employees?

Mr. FAIRWEATHER: Only for new employees. That is to say for those who did not have enough service to qualify for more than that under the old plan. An employee is not permitted to contribute, however, until he has been connected with the company for ten years. The reason for that is, if you did not make that provision you would always be paying money in and taking it out on account of the labour turnover. These men who are in and out never stay in the service long enough to become pensioners, and there would be no sense in providing for them. Those are the main conditions. Employees have to be with the company for 10 years. It is a pretty safe bet if he is there for 10 years he will become a pensioner, unless he dies.

Hon. Mr. EULER: When does he become entitled to a pension?

Mr. FAIRWEATHER: When he reaches the pension age; the retiring age is 65.

Hon. Mr. EULER: No matter when he begins?

Mr. FAIRWEATHER: Oh no. A new employee to qualify for a pension of \$300 a year non contributory has to join the company before the age of 45, and have been continued in the company's employment continuously until the age of 65.

Hon. Mr. EULER: Twenty years?

Mr. FAIRWEATHER: Twenty years.

Mr. GRAY: Ten years of which he would be contributing.

Mr. FAIRWEATHER: Yes, and ten years of which he would not be contributing.

Mr. HANBURY: Can he qualify above \$300?

Mr. FAIRWEATHER: Yes, by contributions.

Mr. GRAY: What is the provision for withdrawal before pensionable age?

Mr. FAIRWEATHER: Provision? There is absolutely no penalty to the man at all; he gets back every cent he put in, plus compound interest.

Mr. GRAY: At what rate?

Mr. FAIRWEATHER: The plan provides that the rate shall never be lower than one quarter per cent below the yield of government bonds, $3\frac{3}{4}$ per cent, if they are at 4 per cent. The interest rate is set by the trustees at a rate which will vary depending upon business conditions. They may go up or down.

Sir EUGENE Fiset: You stated the maximum retiring age is 65. You also stated a few minutes before that that a man would be entitled to a pension after 20 years service for other causes than age. I suppose for sickness, or something of that kind.

Mr. FAIRWEATHER: No, sir, if I gave that impression it was wrong. A man has to become eligible for pension. He must reach the age of 65 in the company's service except he falls sick or becomes mentally or physically disabled after the age of 60. But nobody can get a pension under the contributory plan retiring

from the company prior to the age of 65 if he is in health, and if he is not in health prior to the age of 60.

Sir EUGENE Fiset: What was the object of mentioning 20 years a moment ago?

Mr. FAIRWEATHER: Well the point is this: I was asked if there was any limitation in point of service in regard to the qualification for the company's portion of the pension. There is that qualification, a new employee joining the company—suppose we did have an employee who joined the company at age 47, he could not become eligible for the \$300 a year that I have mentioned.

Sir EUGENE Fiset: He would be entitled, if he retired before the age of 65—

Hon. Mr. EULER: Simply to the money he has paid in.

Mr. FAIRWEATHER: Plus interest.

Hon. Mr. EULER: That is right?

Mr. FAIRWEATHER: Yes.

Mr. HANBURY: This plan does not contemplate the possibility that the age limit for retiring will ever be reduced below 65?

Mr. FAIRWEATHER: The plan is certainly based upon the retiring age of 65.

Hon. Mr. EULER: Suppose a man went in at the age of 45 and for the first 10 years he contributed himself—as I understand it, he cannot contribute for the first ten years—and he is forced to retire at 63 or 64, is he then going to lose that benefit, the \$300?

Mr. FAIRWEATHER: Retiring from what cause?

Hon. Mr. EULER: Well, maybe sickness.

Mr. FAIRWEATHER: If for sickness he is pensionable.

Hon. Mr. EULER: At the same rate?

Mr. FAIRWEATHER: Pensionable in the main on his \$300 if he is a new employee, plus whatever his contribution is, plus the company's contribution combined.

Sir EUGENE Fiset: That is exactly what I asked you a moment ago and you said no.

Mr. FAIRWEATHER: If a man is in health he cannot retire before 65; if he is in ill health he may retire between 60 and 65.

Mr. GRAY: This perhaps does not arise out of your explanation of the new pension plan. Perhaps I should have addressed it to your principals, the chairman of the trustee board. In the past we have had some discussion about retaining some employees who have reached the pensionable age. Can you tell us anything about that?

Hon. Mr. FULLERTON: It is stated in the rules.

Mr. GRAY: Have you still some of these employees?

Hon. Mr. FULLERTON: No, the employees all must retire at 65. Certain supervisory officers may be retained.

Mr. HANBURY: Last year you had 682 of them.

Mr. FAIRWEATHER: There are still some, but I think that this is correct, is it not, Mr. Chairman, that in the course of, I suppose about a year, everybody over the age of 65 will be out of the service except certain officers.

Mr. GRAY: It is compulsory except as a matter of readjustment?

Mr. FAIRWEATHER: Of course, that applies to the lines in Canada.

Mr. GRAY: Does it apply to the Prince Edward Island fund?

Mr. FAIRWEATHER: To the lines in Canada; but the I.C.R. and the P.E.I. Provident Fund is separate and there is the Grand Trunk provision which covers only 300 people.

Mr. GRAY: It applies to the whole system with the exception of those two roads in Canada?

Mr. FAIRWEATHER: Yes.

Sir EUGENE Fiset: How will it affect the old employees who were practically due for pension and were still under the old system of pension on the Intercolonial; how will that affect them?

Mr. FAIRWEATHER: It does not prejudicially affect anyone who has pension A. With regard to conditions in the United States, of course we know that the United States congress passed about a year ago a retiring law and that is at present before the courts to test its legality.

Hon. Mr. FULLERTON: It has been held invalid by one court, and it is now before the Supreme Court of the United States.

Hon. Mr. EULER: What is the attitude of the men towards the plan?

Mr. FAIRWEATHER: I think it is quite popular.

Hon. Mr. FULLERTON: As a matter of fact, it has been fully discussed with the chairmen for weeks and weeks and they were thoroughly satisfied with it.

Mr. MACMILLAN: In arriving at these figures regarding the setting up of this fund, I suppose experience is an important factor?

Mr. FAIRWEATHER: Do you mean actuarial figures?

Mr. MACMILLAN: Yes.

Mr. FAIRWEATHER: Actuarial figures upon which the pensions would be based will have to be in accordance with the rule submitted to the Department of Insurance and approved by them. The tables would all be in accordance with standard experience.

Sir EUGENE Fiset: Did you ascertain before passing those regulations if there was any necessity of having legislation by parliament before you could apply them?

Mr. FAIRWEATHER: That is hardly a question to be directed to me, sir.

Hon. Mr. FULLERTON: I think we have acted under an old act which we think fills the bill all right.

Sir EUGENE Fiset: You do not want the same thing to happen in Canada as has happened in the United States if you can help it.

Mr. FAIRWEATHER: No.

Hon. Mr. FULLERTON: No.

Mr. HANBURY: What will be the effect after some of these present employees have been retired? Eventually will the effect be that the contribution of the railway to this fund will be less than it is today?

Mr. FAIRWEATHER: The cost of pensions falls and the company will undoubtedly pay less than before.

Mr. HANBURY: It will go down year after year?

Mr. FAIRWEATHER: The effect will be slight for the first few years, but as time goes on and the full effect of the fund develops then the big increase in pension cost has been halted.

Mr. HANBURY: Would it be difficult, if it is ever found advisable to do so, to change the pensionable age from 65 to 60?

Mr. FAIRWEATHER: I think it would be rather difficult, because the trouble is that the scheme is working nicely to permit a man having a reasonable pension at 65, and he is contributing to that end. If you move that back to 60 he will have to have his contributions boosted to get a reasonable pension and, of course, the opportunity will have gone by.

Mr. HANBURY: Of course, many people in Canada today think there are too many people over 60 years of age who are working.

Mr. GRAY: Wait until you reach that age.

Sir EUGENE Fiset: Is it not a fact that a man will be receiving a pension and also an annuity?

Mr. FAIRWEATHER: He would receive a pension and an annuity, that is correct; but it would be in the form of one cheque and it would be made up in two pieces, his non-contributory pension plus a supplementary annuity, and if he did not elect to contribute he would get the supplementary annuity but no pension.

Hon. Mr. EULER: Have they a similar pension scheme on the other railway?

Mr. FAIRWEATHER: On the Canadian Pacific? The Canadian Pacific have a non-contributory scheme which is very similar to the one we abandoned.

Hon. Mr. EULER: Is there no place for co-operation there?

Mr. FAIRWEATHER: Well, there has been some, sir; yes.

Mr. GRAY: From comments I have heard along the road the men seem to be very much in favour of the scheme. That is my impression.

Mr. FAIRWEATHER: That corresponds with my information.

Mr. PRICE: As I understand it, previously if an employee wished to transfer from the Intercolonial and the Prince Edward Island Provident fund to the Canadian National fund he would have to appeal and have an order in council before the transfer could be made; is that correct?

Mr. FAIRWEATHER: Well, of course, the I.C.R. and the P.E.I. Provident fund is a fund under the direct jurisdiction of the government while the Canadian National pension is under the jurisdiction of the Canadian National Railways, and nothing can be done without the sanction of the government in connection with the I.C.R. and P.E.I. employees. That is quite correct.

Mr. PRICE: I am to understand that under this new provision the transfer can be made without an appeal, except to the railway?

Mr. FAIRWEATHER: At the present time there is no transfer.

Mr. PRICE: A transfer can be made from the P.E.I. Provident fund to the Canadian National fund by the officials of the railway, can it?

Mr. FAIRWEATHER: No. It is impossible without an order in council.

Hon. Mr. EULER: Would it not be worth while to try to get uniformity?

Mr. PRICE: I would also like to ask Mr. Fairweather if these pamphlets have been distributed to the different regions.

Mr. FAIRWEATHER: Thousands of them. Altogether we put out about 60,000.

Mr. TUMMON: Does the same application with regard to what Mr. Price was asking apply also to the Grand Trunk railway employees' superannuation Provident fund?

Mr. FAIRWEATHER: That is a very small group. There are only 300.

Mr. TUMMON: Only 300 all told now?

Mr. FAIRWEATHER: Yes. This plan does not apply to them at all.

Mr. GRAY: Following on the question asked by Mr. Euler I would like to ask if the board of trustees has considered making a change if it is necessary to bring all employees under the new pension scheme so as to have uniformity? Has that been considered?

Hon. Mr. FULLERTON: No. We hope it will come to that under the scheme.

Mr. GRAY: I understood they could not.

Hon. Mr. FULLERTON: If they are permitted by the employees.

Mr. GRAY: That is the Canadian National railway?

The CHAIRMAN: The Canadian government.

Hon. Mr. FULLERTON: We asked for an order in council. We have not got it.

Mr. GRAY: You have asked for it?

Hon. Mr. FULLERTON: Yes.

Mr. GRAY: That is different. How long ago was that asked for?

Mr. FAIRWEATHER: About a month ago.

Hon. Mr. FULLERTON: It was to make it permissible for these men to come under the compulsory scheme.

Mr. HANBURY: Without a separate organization in each case?

The CHAIRMAN: I wonder if Mr. Price heard that last statement.

Hon. Mr. FULLERTON: My statement was that an order in council has been applied for to enable the members under the Provident fund to come in.

Mr. PRICE: Now I wish to ask if the management of the railway has made any provision for an educational campaign in the way of instruction of the employees of the railways. I refer to the different railway centres. I have found a great deal of doubt in the minds of railway employees as to how this scheme will work out, and I would suggest that at various railway centres where a number of people are employed, lectures be given so that a thorough understanding of these regulations would be given to the employees. It might also say that I would like to suggest in connection with the general situation of railway matters all over the system—particularly in connection with our national railways—that the employees at various points be enlightened as to the causes of reductions in staff. I believe that such an explanation is possible. For instance, if meetings were held at various centres and some official of the railway would explain to the employees why reductions have been necessary in the number of employees, I think it would clear up a great deal of misunderstanding at the present time. It would show the railway employees why there have been these restrictive measures in connection with the reduction in staff and reduction in trains and so on. I do not think it would be a very heavy job, and I think it would do a lot of good.

Hon. Mr. EULER: Could you not use the Canadian National magazine for that?

Hon. Mr. FULLERTON: The whole pension scheme appeared in the Canadian National magazine.

Mr. BOTHWELL: After the 1st of June of this year there will be no longer a non-contributory pension scheme except as it is fixed on the 1st of January?

Mr. FAIRWEATHER: Yes, as is fixed on the 1st of January; with this further proviso that a new employee will get a non-contributory pension in the amount of \$300 if he has continued in the company's service to pension A and joined the service prior to age 45 and had the appropriate number of years service; but I may say in order to explain that that it is very difficult to get a pension plan which will meet all requirements from a humanitarian standpoint. For instance, a straight contributory plan makes it impossible for the small man to get a reasonable pension. He has to be given a leg up. And that is what that \$300 is for. He can afford perhaps only to put up 1 per cent of his pay. That backlog of \$300 of non-contributory pension plus his 1 per cent contribution will give him a reasonable pension, and if he did not have it it would be impossible for him to get a decent pension because he could not afford to contribute an amount necessary for such a pension.

Mr. GRAY: He would have to have a minimum of twenty years service.

Mr. BOTHWELL: All employees engaged prior to 1st of January 1935 are on the same basis as a new employee, only that he has a much longer term?

Mr. FAIRWEATHER: That is correct. He has a service pension. If he has service at fifteen years he is getting credit for it. Nobody's position prior to 1934 was jeopardized by reason of the new plan. With regard to publicity of the plan, we made it as public as we could through the magazines and also through the representatives of the men. We addressed them on a number of occasions. We met the general chairman who represent the men, and we also met representatives of the clerical forces and explained the scheme to them fully.

Sir EUGENE Fiset: I have some questions to ask with regard to these employees who have been retrograded or have been suspended for part time. Are they allowed to contribute to that fund during the time they are suspended?

Mr. FAIRWEATHER: Now what do you mean by suspended? Do you mean laid off?

Sir EUGENE Fiset: Yes.

Mr. FAIRWEATHER: Those laid off will continue to contribute but the company will not match their contributions.

Sir EUGENE Fiset: The time he is laid off for does not count towards his real pension, but only towards his annuity?

Mr. FAIRWEATHER: Yes. Only the amount he contributes.

Sir EUGENE Fiset: The maximum of the contribution is 10 per cent. Can the employee elect to contribute whatever he thinks fit from two, three, four up to ten?

Mr. FAIRWEATHER: Yes; but the company will match only up to 5 per cent.

The CHAIRMAN: Mr. Matthews, will you be here on Tuesday?

Mr. MATTHEWS: Yes.

The CHAIRMAN: I am sure I am speaking for the committee when I say that we are much obliged to you for the information you gave to the committee today.

The committee adjourned to meet Tuesday, April 9th, at 11 o'clock.

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SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 9, 1935

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. J. E. Labelle, Trustee, Canadian National Railways.
- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways.
- Mr. T. H. Cooper, Auditor of General Accountants, Canadian National Railways.

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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

REPORT TO THE HOUSE

SECOND REPORT

TUESDAY, APRIL 9, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

SECOND REPORT

Your Committee has considered Bill No. 24, An Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935, and has agreed to report the said Bill without amendment.

All of which is respectfully submitted,

G. R. GEARY,
Chairman.

MINUTES OF PROCEEDINGS

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., the Chairman, Mr. Geary presiding.

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Cantley, Euler, Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Power, Stewart (*Lethbridge*), Tummon.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. George W. Yates, Assistant Deputy Minister; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance; Mr. C. A. Matthews, of George A. Touche & Co., Chartered Accountants.

Hon. Mr. Manion made a statement on the recapitalization or writing down of the capital structure of the Canadian National Railways, as suggested by the Auditors.

The Committee then considered Bill 24, An Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935, the said Bill being adopted without amendments, and the Chairman authorized to report same to the House.

The Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act for 1935-36, referred to the Committee on April 3rd, were taken into consideration as follows:

- Vote No. 293, adopted;
- Vote No. 294, ordered to stand until next sitting;
- Vote No. 295, adopted;
- Vote No. 296, adopted;
- Vote No. 297, adopted.

After general discussion on the financial reports of the Canadian National Railways, the Committee adjourned until 3.45 this day.

AFTERNOON SITTING

The Committee resumed at 3.45 p.m.

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Cantley, Duff, Euler, Fiset, Fraser, (*Cariboo*), Geary, Gray, Hanbury, MacMillan (*Saskatoon*), Power and Stewart (*Lethbridge*).

The Committee reverted to the consideration of Vote No. 294 of the estimates, which was adopted, the Chairman being authorized to report said Estimates to the House.

The Committee then considered the Annual Report of the Canadian National Railway System, the officials of the Railway being examined thereon.

The Committee adjourned at 6.45 until to-morrow, Wednesday, at 3.45 p.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 268,

April 9, 1935.

The select standing committee on Railways and Shipping met at 11 o'clock, Colonel O. R. Geary, the chairman, presiding.

The CHAIRMAN: Order, gentlemen. Dr. Manion has a statement to make at this point with regard to the report of the auditors.

Hon. Mr. MANION: Mr. Chairman and gentlemen, unfortunately for myself I shall have to leave this meeting at 11.30 to attend an important council meeting which I could not refuse to attend. On account of the Committee having discussed the recapitalization scheme as proposed by Touche and Company, I wanted to make a short general statement merely to help the Committee as far as I can to view this matter, perhaps, along practical lines. In the first place, may I say that while Mr. Euler is very strongly supporting the recapitalization idea, I am not quarreling with that support in any way, shape or form. That is his position. Mr. Euler without doubt is sincere in his attitude, and I have no absolutely fixed idea on the question myself. The only point is that it is such a big question that I would like to explain it briefly to the Committee as I see it, because there is a vast difference of opinion in the country as to whether there should be this writing down of the balance sheet as proposed: there are many in favour and many against the plan. May I say here that I prepared this statement since I learned this morning that there was to be a council meeting at 11.30, so that if it appears to be a little disjointed I trust the Committee will have some indulgence in that regard.

May I remind the Committee that this is a very old question. I spoke on this matter in the House and I would like to repeat my viewpoint here, and members of the Committee who are not here at the moment will be able to read what I have said.

In the first place I mentioned that years ago, in 1921, Sir Joseph Flavelle made the suggestion and Sir Henry Thornton, in 1928, put his ideas up to the government of the day—I have his proposals by the way in my portfolio at the moment—suggested the cutting down of between \$700,000,000 and \$800,000,000. Mr. Matthews the other day suggested that the difference between Sir Henry's figure and his figure was made up of interest since then and perhaps deficits. I am not going to argue that one way or the other. There may be a good deal of truth in it. But Sir Henry Thornton also wrote me in 1931 a letter which I have suggesting that during this depression he did not think it would be proper to deal with this question. Then came the Royal Commission on Railways, and I want to quote from it to show the differences of opinion that exist in regard to this matter. I am quoting from paragraph 87, page 30, of the Royal Commission's report, which reads as follows:—I will read part of 86:—

And while this Commission is of opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National system must be regarded as lost and that its capital liabilities should be heavily written down, they do not consider that the time is opportune to deal with this important matter.

87. This question as well as that previously referred to, dealing with the present involved financial structure of the Canadian National system, should in the opinion of the Commission, have the early attention of the Board of Trustees, which it is recommended should be entrusted with the control and management of the system.

In other words they suggested that this matter receive the early attention of the Board of Trustees, and I wish to point out now that the Board of Trustees have never, so far, made any recommendation to us. It is true the chairman has said he personally thinks a change should be made, but the Board of Trustees has never made a recommendation as suggested by this report. That was the position taken by the Royal Commission. Then comes Mr. Matthews representing Touche and Company, and they take the attitude that there should be a writing-down of the capital structure. That, of course, is their opinion, and they have a perfect right to it. I have no quarrel with them but I do wish to point out that though Sir Henry Thornton suggested to the late government a recapitalization or a changing of the picture, they hesitated because they realized, probably, that it was a very complicated subject, just as we hesitate at the present time, partly, at least, for the same reason.

I want to point out further from this report how complicated this question is. Since the last meeting I made it my business to go into some of the details with my officers as to the complications involved. For example, if you attempted to change the capital structure it would require, probably, a great deal of legislation in the House of Commons. There is no doubt it would require some legislation—I am informed probably a great deal. Again I want to read from the Royal Commission report because it will be accepted more readily, perhaps, by those who do not agree with me politically than would my statement. I shall now read clause 84, a clause preceding the ones I have just read, and I should like to refer you all to those clauses, which will be found on page 30 of that report:—

Representations have been made with respect to the capital structure of the Canadian National Railway. This problem presents several aspects. One is the very large number of companies whose corporate existence must be maintained. Another is the large number of different bond issues and mortgages with different rate of interest, expiring at different periods and with all sorts of different clauses in them. It has been stated that included in the National Railway system there are 251 different bond issues and mortgages; that there are 80 different issues of certificates in the hands of the public; that there are 139 companies whose corporate existence must be maintained, and that 42 separate income accounts and 90 separate balance sheets have to be prepared each year.

That, without any elaboration from me, shows the complications of the whole picture. Now, may I say here that I entirely agree with Mr. Euler and any of the rest of you that the capital stocks held as liabilities, 200 and some odd million dollars, should be written down. But there is no use attempting to write down some \$200,000,000 odd of capital stock to their proper value without dealing with the whole question. So, while agreeing in regard to this capital stock, I submit that the whole question must be dealt with at the same time, for it would be foolish to attempt to take two bites of the cherry.

Then there is this question to show once again the complications: not only is there complication of the different companies, of the different bond issues, different mortgages at different rates of interest, not only are these questions involved, but on what basis are we going to change the capital structure? Are we going to do it on the basis of physical value, for instance, of the road, or on the replacement value of the road, or are we going to do it on the question of the earning power of the road? In regard to the earning power of the road, again I quote from the Royal Commission, clause 86: These figures have been quoted in the budget debate recently and by other speakers. Mr. Ralston quoted them and I agree with him:

The net operating income (i.e. the amount available for interest and dividends) of the Canadian National system for the period 1923 to 1931 inclusive averaged \$24,414,447 per annum.

In other words, the Canadian National system during those years—and they took them no doubt, because they were the years subsequent to the consolidation of the roads by the new management—earned towards interest an average of \$24,000,000; but on the other hand the total interest averaged for those years, and I looked up the figures this morning and checked myself carefully, \$43,000,000. In other words, even in those prosperous years of the Canadian National there was a deficit on interest owing to the bondholders of about \$19,000,000 per annum.

Mr. HEAPS: Is that the interest of the whole Canadian National you are referring to now?

Hon. Mr. MANION: On the whole of the debt owing to the bondholders, not the debt owing to the government. This is debt owing to the bondholders, the people who have loaned their money to the Canadian National, which is largely guaranteed by the Dominion government, but not entirely so. There was an average deficit during those years of \$19,000,000, but in addition to that there was the interest on government loans during those years which averaged \$32,000,000 annually, none of which has ever been paid. I repeat that, none of which has ever been paid, and none of which probably will ever be paid. In addition, the capital expenditure averaged \$46,000,000 during those years, additions and betterments, purchasing of branch lines, road building, hotels, and so on. On that account there was an average annual expenditure of \$46,000,000. I have not added these figures together, but I think they total \$97,000,000. Of the deficit, \$19,000,000 was the cash deficit, so far as the public investor was concerned, and \$32,000,000 interest owing to the government.

Mr. HEAPS: May I ask again to clear up the doubt in my own mind, does the government actually pay interest on the whole of the indebtedness?

Hon. Mr. MANION: No, the government has probably absorbed into the national debt a good part of the expenditures, and some of it, as I said the other day, was paid out of consolidated revenue as we went along. Some of it is in the national debt and some of it was paid as we went along. If we had a surplus probably some of the surplus went into it.

Mr. HEAPS: You do not know how much of the debt is interest bearing?

Hon. Mr. MANION: No, I cannot tell you how much of that is interest bearing. As I said the other day, it is a complicated matter. I doubt if anybody in the world can figure it out because it goes back to the time of confederation, the building of railways as public works. However, I do not want to get off the track. I repeat, none of the money, either government interest or capital expenditures, was paid back to the government in any shape or form; so that changing the capital structure of the Canadian National on the books of the company, even in the case of the books of the government, which means the public accounts, only clears the picture and does not effect to the extent of one dollar the financial position of the Canadian National Railways.

Hon. Mr. EULER: That is well understood, I think.

Hon. Mr. MANION: Perhaps. But I think the whole picture is so complicated it is wise to repeat facts as clearly as I can, anyway, from time to time. It has been drawn to my attention by one of my officers that I should make it clear that the Duff report referred the entire capital structure—both the Dominion of Canada account and the funded debt—to the trustees. That is elaborated a little bit but it does not make any particular difference to the picture at the moment.

Now I want to agree with the Royal Commission report in which it is stated that to-day with the earning powers of the Canadian National Railways vastly decreased as compared with those years when they averaged \$24,000,000 towards interest, it is not a time for final decision; because the earning power to-day is

certainly abnormal. At least to my mind if this country is going to come back the earning power of the Canadian National system will have to greatly increase, and so will the earning power of the Canadian Pacific.

Hon. Mr. EULER: You mean sub-normal.

Hon. Mr. MANION: Yes, but abnormal in being sub-normal. At least I hope it is; because if it is normal, then I have not very much hope either for the Canadian National railway or the government of Canada. But I think it is sub-normal, very much sub-normal.

Mr. HEAPS: Mr. Euler has not got much hope for the government anyhow.

Hon. Mr. EULER: I thought you meant the railways.

Hon. Mr. MANION: May I sum up the government's position: in the first place I repeat that this question requires a good deal of legislation; how much nobody seems to know. I tried to make enquiry. I received this morning, for example, a memo consisting of three closely written pages, on the question of how much legislation would be required and it was not definite at all; it was merely a general summing up of the question.

Hon. Mr. EULER: From whom?

Hon. Mr. MANION: From the legal officers and the officers of my department. Secondly there would require to be very much enquiry of the different companies involved, of the railway management and of the trustees themselves. The management itself must be taken into the picture. This is only a suggestion that came to me this morning, and I am submitting it, subject to the possibility of something better being offered. I am suggesting this with the sincere desire of serving the railways themselves and serving the people of Canada. Because of its complications, a committee such as I now propose might be set up to deal with this in the current year in time to report to the next session of parliament, as it is too complicated to be dealt with at this session. I would suggest that the committee consist of the deputy minister of railways, Colonel Smart, the deputy minister of finance, Dr. Clark, and the deputy minister of justice. The reason they are suggested is that the deputy minister of railways is naturally very familiar with the problem, having spent a life-time in a study of the whole railway question. He was a professor, incidentally, of transportation, at McGill university for a number of years. The deputy minister of finance will naturally look at it from the standpoint of the finances of the Dominion of Canada, and the deputy minister of justice will look at it from the legal standpoint. They would have in addition to call in the railway management, the trustees, the legal and financial advisers of the railways themselves. That is my suggestion in entirety. I do not wish it discussed at the present time because the Chairman was not very anxious for me to make the statement because he said we were going back to a subject which we had left off. Since Mr. Euler mentioned it when he came in I thought perhaps the statement should be made. No recommendation from this committee could possibly result in this question being dealt with at this session of parliament, even if it lasted until July or August. It is absolutely impossible. I say that on my honour, as far as I know the question, and I think I know something about it. So I suggest to Mr. Euler particularly because he has been dealing with it more particularly from the standpoint of the opposition party.

Hon. Mr. EULER: It is not from the point of view of opposition at all.

Hon. Mr. MANION: He has been an important spokesman from the liberal party.

Hon. Mr. EULER: It is not a party question.

Hon. Mr. MANION: No, I did not mean to put it as a party question; neither am I making it a party question. Mr. Euler has been the man who has been giving more attention to it than others on that side of the House. I suggest, that being so, that some such arrangement as this might be brought

about in order finally to make recommendations to the government that will come in after the next election, whatever government that may be. I have tried to make a clear statement on the matter and I hope the members of the committee will act on my suggestion. I will be very glad to discuss it on another occasion. I won't have time to discuss it now, as I have to leave shortly.

Hon. Mr. EULER: It is a little unfortunate that the minister is not able to stay any longer, because I say there are two sides to that question. I want to refer for one moment and to ask a question with regard to the suggestion of the committee. What I should like to know is this: is the committee that is to be appointed to be charged with the work of bringing out a practical or practicable suggestion as to how the capitalization should be written down, or is that committee to deal with the matter of policy as to whether it should be written down or not. I think that is extremely important. You have cited all the authorities down to recent times, including the auditors, to the effect there should be a writing-down. Now what I should like to know is whether this committee is accepting the conclusion arrived at by those various bodies all the way down to the auditors, that there should be a substantial scaling down of the capital structure. If that is accepted, and I think it should be—that is my argument—then I have no objection to referring it to a committee to ask them to decide just how the writing-down shall be accomplished. But I do not think it would be right to exclude from the deliberations of the committee comprised as the minister suggests, members of the House or members of this particular committee from being associated with this new committee, if that committee is to be charged with the work of deciding whether or not this is going to be a matter of policy. I realize of course the government will always formulate policy, but after all, in theory at least, the members of the House, parliament itself and this committee as appointed by the House, should have something to do with the formulation of policy and advance reasons why certain things should be done. Is the minister able to tell me—

Hon. Mr. MANION: I have no objection to that committee sitting, in a sense, in association with this special railway committee or reporting to this railway committee. I think these are details and I have not had much time to go into them.

Hon. Mr. EULER: What is the committee to do? Are they to devise ways and means of doing this thing?

Hon. Mr. MANION: To look into the whole question.

Hon. Mr. EULER: I think the minister will agree that surely men who are not members of parliament, with all respect to their ability, should not be charged with the duty of formulating policy.

Hon. Mr. MANION: No. My hon. friend said a moment ago what everybody knows, that policy must be formulated by whatever government is in power, no matter what that committee may report or what this committee may report, whatever government is in power—

Hon. Mr. EULER: This committee, being members of the House are in a different position. Surely, members of the House should be permitted, probably, to influence, if they can the government as to what is a proper policy.

Hon. Mr. MANION: I see no objection to that.

Hon. Mr. EULER: If that committee is to deliberate with regard to policy then I think members of the House should have something to say with regard to it. That is my point.

Hon. Mr. MANION: The government of the day would deliberate as to policy but that committee would look into the practical possibilities. They would look into the whole question and the possibility of making a recommendation. The royal commission could only make a reference to the trustees—the trustees who have reported to us. Now, my submission is that some such

committee as that—and it was a hurriedly thought out suggestion—should go into all the practical financial, legal and railway aspects of the matter, call in whoever they wish—but that does not in any way, shape or form prevent you or any other member, or the committee as a whole differing from the final submission. The only thing I am trying to do is to get at something definite. We have nothing definite. The Touche report is only the Touche report after all.

Hon. Mr. EULER: It is very definite.

Hon. Mr. MANION: It is the opinion of one man.

Hon. Mr. EULER: It is the opinion of the auditors appointed by the government of Canada to do this work.

Hon. Mr. MANION: I am not finding fault with them.

Hon. Mr. EULER: The report is quite definite. While I am on that let me say that I do not want to hurry the minister; I think it is unfortunate that he started this matter without having an opportunity of discussing the whole thing and answering some of the points he has advanced.

Hon. Mr. MANION: We will have it up again. I wanted to make my statement and leave it with you.

Hon. Mr. EULER: The minister said there were very many complications. I am not an auditor, although I know something about it. My opinion is that the suggestions made by the auditors are very simple and deal with the question in such a simple way that I would prefer to hear the auditor again as to whether or not he thinks there would be any bookkeeping complications with regard to the matter and whether it would require any very extended legislation.

Hon. Mr. MANION: May I say now that Mr. Matthews has made in good faith his suggestions for the Touche company; and while his suggestions are definite enough the carrying out of those suggestions, I am informed by the best authorities I can get, is an exceedingly complicated matter, even with the best faith in the world. If we could carry out the suggestions of the Touche company, I do not think we could get them ready for this session of parliament even if it lasted until July.

Hon. Mr. EULER: That may be quite true.

Hon. Mr. MANION: As far as the legal end of it is concerned, in my opinion there are no better men than my legal advisors, and that is what they have said.

Hon. Mr. EULER: But from the bookkeeping end of it—the man keeping accounts—I think Mr. Matthews' opinion is probably worth more than that of anybody else.

Hon. Mr. MANION: I was speaking of the legal side of it. I see that Mr. Power and Mr. Gray have come in since I made my statement, and I would like to have the committee read my suggestions after which we can have a further discussion.

Mr. GRAY: I want to be appointed counsel.

Hon. Mr. MANION: You will need the job soon enough.

Mr. HANBURY: Mr. Power was enquiring why there should be only a sub-committee of the brain trust—why not the whole brain trust.

Mr. POWER: That is my first recommendation.

The CHAIRMAN: Now, we have got into the general report of the trustees and dealt with one phase of it—one paragraph relating to pensions—whether exhaustively or not I do not know; but may I say that Mr. Smart, the deputy

minister tells me that it is usual for this committee to take the estimates which have been referred to the committee together with the bill in connection with them and get them through and report to the House.

Hon. Mr. EULER: That should not take long.

The CHAIRMAN: You will find the estimates and the bill distributed.

Mr. HEAPS: I asked some questions at the last meeting, and I would now like to ask whether the replies will be given this morning.

The CHAIRMAN: Some questions were asked by both Mr. MacMillan and Mr. Heaps at the last meeting, Mr. Fairweather.

Mr. FAIRWEATHER: With regard to the questions asked by Mr. Heaps, I have them; but Mr. MacMillan's are still in the course of preparation.

Mr. HEAPS: May I have my answers now?

The CHAIRMAN: Your answers are ready, Mr. Heaps, and you can see them, but if you will accept the suggestion from me we will not discuss them until we get to the proper place and then the chairman of the board will put them on the record. They will go into the record through the committee. Now, gentlemen, will you take up bill 24. According to my recollection, the estimates were referred to this committee on the 18th of March and they are before you. Is it the pleasure of the committee to take up bill 24?

Carried.

The CHAIRMAN: The short title "Power to Issue Notes for Refunding and Capital Expenditures."

Hon. Mr. EULER: Does that clause deal with the deficit?

The CHAIRMAN: I think that is purely refunding and capital expenditures.

Mr. HANBURY: In that connection, may I ask whether the Canadian National are continuing to do their own financing or whether the financing is being done by the government?

Hon. Mr. FULLERTON: A little of both.

Mr. MACMILLAN: Can you do it through the Central bank from now on?

Hon. Mr. FULLERTON: No. We do not do any banking at the Central Bank direct.

Mr. HANBURY: You say that you do a little of both. Would you expand on that?

Hon. Mr. FULLERTON: We make a temporary loan from time to time. Perhaps it may not be the proper time to make a new issue. Perhaps we meet a maturity of bonds by a loan from the government and when the proper time comes we will make an issue of bonds.

Mr. HANBURY: And who has charge of that issue?

Hon. Mr. FULLERTON: Ourselves. Of course, we consult with the financial officials of the government; we work together on all these bond issues.

Mr. HANBURY: The Duff report did recommend that the government should do all the financing.

Hon. Mr. FULLERTON: They are doing it for all deficits.

Hon. Mr. EULER: Is there any reason why we should do it that way?

Hon. Mr. FULLERTON: There is no other way that I can see.

Hon. Mr. EULER: Do you get a better rate?

Hon. Mr. FULLERTON: Yes, it seems to work better.

The CHAIRMAN: In effect it is being done by the government.

Hon. Mr. EULER: There was some doubt.

Hon. Mr. FULLERTON: Yes. It is being done by the government.

Mr. POWER: You never have an overdraft at the bank?

Hon. Mr. FULLERTON: I think not.

Mr. POWER: You just draw on the government. You have your overdraft with the government until such time as you issue bonds.

Mr. COOPER: We have considerable working capital, and as our monthly estimates are submitted to the government they are reimbursed to the railway which keeps us in cash.

Hon. Mr. EULER: You are working at a deficit for the last year of \$48,000,000, and that means that you run short of money at times. How do you get that money?

Mr. SMART: In this bill there is an authorization for the Minister of Finance to make advances on account of deficits up to the total amount, and each month they draw down from the Minister of Finance with approval of the Minister of Railways. At the end of the year when they finally determine the total deficit it comes as a supplementary estimate to the House and is voted as a charge against consolidated revenue.

Hon. Mr. EULER: Since that is involved in the bill it suggests a question I wanted to ask.

The CHAIRMAN: That is under section 4. Let us take the sections in order. Section 2 is passed, and what about section 3?

Carried.

The CHAIRMAN: Section 4 is the deficit section.

Hon. Mr. EULER: I wanted to ask this question: the deficit, of course, is caused to some extent at least by the fact that business which the railways at one time received, now goes to certain competitors. I am not referring to the C.P.R. but to the trucks, automobiles, busses and so on. I would like to ask the chairman of the board what steps are taken or what definite policy, if any, has been evolved by the management of the Canadian National railways to compete for the business which is now being obtained by the trucks, busses and automobile traffic generally?

Hon. Mr. FULLERTON: I think our president could give you a better explanation than I could.

Mr. HUNGERFORD: We have been carrying on experiments in different parts of the country to determine the best course to pursue in each particular case. In western Ontario we inaugurated a pick-up on delivery services with an adjustment of rates, and that is under study, and we propose to extend it from time to time as conditions warrant it. On some of our American lines we have also inaugurated the pick-up system.

Hon. Mr. EULER: Have you taken any extended steps in that direction that show success; could you give any indication as to what has been done in that direction a little more specifically?

Mr. HUNGERFORD: I have no figures available.

Hon. Mr. EULER: Is this the extent of it, that at the various points you have pick-up and delivery service that carries the freight to the station and there it is loaded onto C.N.R. freight trains? You have not established any truck service between points where the railways do not do any of it at all?

Mr. HUNGERFORD: There are some small incidental services, particularly in connection with express, but it is very small.

Hon. Mr. EULER: Is the railway making a definite effort in that direction, or is it more or less—

Mr. HUNGERFORD: I would say that a serious effort is being made so far as Canadian territory is concerned. We are acting in collaboration with the Canadian Pacific and taking concurrent action at the same time.

Mr. MACMILLAN: The Canadian Pacific running between Regina and Moose Jaw have been trying experiments running trains every hour or two.

Mr. HUNGERFORD: I do not know exactly what they are doing.

Mr. GRAY: Arising out of Mr. Euler's question—I intended to bring this up at a later stage—I have been told by someone—I do not know who it was—that if it was not for the law that a train must have three men on it you could run single cars or Deisel self-contained transportation on the road and compete thereby with the busses for short runs. Mr. MacMillan has mentioned the instance from Moose Jaw to Regina, and I think it is being done from Winnipeg to Brandon and places of that kind. Am I correct, first, in saying that there must be three men?

Mr. HUNGERFORD: No; not on single unit cars.

Mr. GRAY: Must there be two men?

Mr. HUNGERFORD: Yes, two.

Mr. GRAY: Does that phase of it enter into the fact that it makes competition with the busses more difficult?

Mr. HUNGERFORD: That is one difficulty; there are many others.

Mr. GRAY: That is one difficulty. Is there any way in which that could be removed? Is it necessary to have two men?

Mr. HUNGERFORD: The regular provision for a train crew is engineer, fireman, conductor and two brakemen. That is the average crew for a steam train. A good many years ago we made a special arrangement with the labour organizations when we introduced the single unit. By this arrangement we can employ a reduced crew, and we are able to run a unit car with two men.

Mr. GRAY: Has any attempt been made to reduce that again to one man so as to compete with the motor truck?

Mr. HUNGERFORD: Yes, there have been one or two attempts, but they have not been very successful.

The CHAIRMAN: Do the labour people object to that?

Hon. Mr. EULER: Is that the real difficulty?

Mr. HUNGERFORD: Yes. There is a service difficulty too.

Mr. GRAY: The labour unions are very anxious, and have from time to time brought before your company and before the government the necessity of doing something to compete with motor transport; and I would think they would be very anxious even to get one man employed on a unit car to compete with the motor transport rather than not have any employed at all.

Mr. HUNGERFORD: There is no question at all that they are very anxious to see that class of traffic return to the railways; but from a service point of view there is quite a serious difficulty. For instance, if there is a break-down on the road, it is essential to have one man on the unit car and one man to go back and flag. That is not required on the highway. However, you must have that service on the track. There are only a very few exceptions such as the most unimportant branch lines where the train service is small where it would be feasible to employ only one man.

Mr. GRAY: We can take it, however, that the matter is under consideration and will be given serious study?

Mr. HUNGERFORD: So far as the operation of unit cars is concerned, we have been doing that for many years. The practice was begun about ten years ago, and we have a large number of units in service.

The CHAIRMAN: Have you that same service on the electrically driven unit cars—that is internal combustion driven units? What service have you with regard to that?

Mr. HUNGERFORD: That is the service I am speaking of.

Mr. GRAY: It is not quite correct to say that the main difficulty is with the labour unions; it is rather a question of service?

Mr. HUNGERFORD: There are fundamental difficulties in the way such as the truck being able to go from door to door, and altogether it is a complicated and difficult problem. The railway management are giving the matter most serious consideration. A great variety of experiments have been made all over the continent, in fact all over the world, and we are watching all the time to see the results. We have not come to any conclusion on the evidence as yet.

Mr. GRAY: I merely raised the question because it had been suggested that the labour unions were holding out for their present arrangements of two men to the unit or three men, and that was delaying development. I understand that is not correct. I do feel that the labour unions are very anxious to assist in the development of this means of meeting competition.

Mr. HUNGERFORD: I agree with you.

Hon. Mr. EULER: Have you ever considered going into the truck business as a definite development in transportation in this country, co-operating as far as possible with the railways?

Mr. HUNGERFORD: It has been discussed a great deal. We have never yet felt quite warranted in doing that except in isolated cases.

Mr. MACMILLAN: Would it be practicable to run a single unit car with one man?

Mr. HUNGERFORD: No. It is possible.

Mr. MACMILLAN: It is possible, but is it practicable from a transportation standpoint?

Mr. HUNGERFORD: Generally speaking, no.

Mr. MACMILLAN: Your reference to single unit cars refers largely to passenger traffic?

Mr. HUNGERFORD: Yes, to a large extent.

Mr. MACMILLAN: It would not affect your freight traffic at all?

Mr. HUNGERFORD: No. They do handle express, of course, and mail, and to some extent package freight.

Mr. MACMILLAN: Do you feel that the matter of transportation by buses and trucks is a factor that enters into the consideration of this whole freight business of the railways? Provincial taxation on trucks and buses is a serious matter with which you have to compete in the whole system of freight carriage, is it not, having regard to the fact that the highways are built at the expense of the public and the licence charge is low?

Mr. HUNGERFORD: I think, perhaps, I can answer your question this way: we feel, generally speaking, that the trucks have an advantage that the railways do not enjoy in that respect.

Mr. SPEAKMAN: There is another question that has been discussed in the country, and possibly some answer might be given upon it: that is that while it is generally realized that motor transport has provided competition that has eaten into the railway business badly there is the question of offsetting freight and expressage provided by the motor business itself to the railway. That is in the transportation of the vehicles and parts and the fuels such as oil and gasoline. I have heard it discussed frequently as to whether that offset in increased business due to the development in motor transport has not to some extent offset for the lossage through competition. Has any estimate been made of that form of business?

Mr. HUNGERFORD: No. I could not give an estimate offhand. There is no doubt that the railways have derived a substantial amount of business from the motor industry. However, we would like to have both.

Mr. SPEAKMAN: There is no question you have derived some benefit, but I wondered if it had been calculated.

Hon. Mr. FULLERTON: The competition is unfair. We are subject to regulation; they are not. They can accept the cream of the traffic and they can refuse what they like while we cannot. They file no tariffs whereas we have to file tariffs and keep them in force for thirty days. There is the unfairness of the competition. If we were on a fair and equal footing with them we would not object.

Mr. SPEAKMAN: I appreciate that.

Mr. BELL: Has this truck business been studied by the railway companies and, if so, to what extent has it been studied, and have the railways any recommendations or any report to make to the committee?

Hon. Mr. EULER: That is the question I was asking.

Mr. BELL: We all realize that truck transportation is taking away a lot of the transportation business suitable to the railways. I want to know whether this question has been studied by the officials of both railway companies and what advancement they have made in the study of it. And have you any statement to submit to the committee on how the traffic should be regulated in order that the railways would get their share of the transportation that is going to the competing organizations?

Mr. HUNGERFORD: Have any of the railways studied this question?

Mr. BELL: Yes.

Mr. HUNGERFORD: All railways affected are studying it and have been studying it for years past ever since it began to develop, and they have been studying it intensely all the time.

Hon. Mr. FULLERTON: The difficulties are largely constitutional because each province has jurisdiction within its limits and you cannot get them all to work together. If it were a question of Dominion legislation it would be simple to bring in regulations; but even if you got your regulations there would still remain the difficulty of enforcing them.

Mr. HEAPS: Was there not a conference called to discuss this question?

Hon. Mr. FULLERTON: Yes, there was; but not very much progress was made.

Mr. TUMMON: Has your road attempted to pick up package freight, particularly in cities, towns and villages from the place of business and deliver it to the station?

Mr. HUNGERFORD: Have they developed arrangements for picking up freight and delivering it to the door of the consignee in the same way as the trucks have done? The answer is yes. In many sections of the country, but not all over. In certain zones we have been carrying on extensive experiments.

Mr. TUMMON: You have been adopting that principle, have you?

Mr. HUNGERFORD: Yes.

Mr. TUMMON: The reason I asked that was that I noticed in our local papers when I was home over the week-end that the C.P.R. have adopted that principle in my home town of picking up package freight at the store door and taking it to the station and picking up incoming freight and delivering it to the store.

Mr. HUNGERFORD: Are you speaking of freight or express service?

Mr. TUMMON: Freight.

Mr. BELL: Following up the remark of Judge Fullerton—

The CHAIRMAN: Just let us finish with Mr. Tummon's question.

Mr. TUMMON: I think Mr. Hungerford answered it. His answer was that it was being tried out in certain zones or places.

Mr. HUNGERFORD: Yes.

Mr. TUMMON: I saw something about it in our local papers, and that is why I asked the question.

Mr. HUNGERFORD: These developments are in collaboration with the C.P. R.; we are following the same policy in the same territory.

Mr. BELL: Following up Judge Fullerton's remark, I understand that this is a matter which is regulated more by provincial than by dominion legislation at the present time. Now, do I understand that the railways have made representations to the various provinces and that no help has been forthcoming to the railways?

Hon. Mr. FULLERTON: I think representations have been made in the past to the provincial authorities.

Mr. LABELLE: The railway association deals with those questions, and they are still considering them.

Mr. HEAPS: Are any regulations being made by the different provinces?

Hon. Mr. FULLERTON: Yes. In each of the provinces more supervision has been exercised. There is no regulation, as far as I know, that requires the trucks to file their tariffs and prevents them from picking up the cream of the traffic. That is the big thing. They take traffic for any price they can get; we have to file tariffs and keep them in force for thirty days.

Mr. HEAPS: In other words, you have had no assistance from any province?

Hon. Mr. FULLERTON: Nothing very material.

The CHAIRMAN: Certain provinces do licence for the exclusive use of a certain highway?

Hon. Mr. FULLERTON: Yes, I think it is the Ontario Railway Board. If they find that a truck is not required on a particular route they refuse to give it a licence. I understand that is so.

Mr. HEAPS: Are they compelled on those routes to keep an all the year around service?

The CHAIRMAN: There are regulations. I could not tell you what they are. I am speaking from my own experience with the Ontario Railway and Municipal Board. They try to exercise supervision and demand an agreement, and I say it does provide for all the year round service.

Mr. GRAY: The regulations are gradually becoming more stringent, are they?

Hon. Mr. FULLERTON: Yes, they are.

Mr. HANBURY: Is it not a fact that if you really hope to compete with motor truck competition it will be necessary to have some of the restrictions in the Railway Act modified in order to enable you to compete?

Hon. Mr. FULLERTON: You are referring to classification and that sort of thing?

Mr. HANBURY: Yes, to give you more latitude.

Hon. Mr. FULLERTON: No doubt some of these regulations would have to be modified. There has been a large study of the whole subject.

Mr. FAIRWEATHER: We are studying it all the time.

Mr. HEAPS: Have the railways considered putting in their own truck service?

Mr. HUNGERFORD: I think I answered that some time ago—only in local services to a small extent.

Mr. HEAPS: You have not considered entering into competition with the truck services in this country?

Mr. HUNGERFORD: No.

Mr. HEAPS: Is not that what they did in Great Britain? Did they not buy up some truck services and go into competition with them?

Mr. HUNGERFORD: We have never found sufficient evidence to indicate that we could do that profitably.

Hon. Mr. EULER: Between Preston and Galt the C.P.R. actually conducts a bus service in competition with their own trolley line to keep the others out.

The CHAIRMAN: Is there anything further under No. 4?

Mr. TUMMON: In connection with the question I asked a moment ago, I do not know whether the committee got the point I was after or not. That service is being given without any extra cost. The freight rates include the service of picking up the commodity at the store door and delivering it to the station.

Mr. FAIRWEATHER: Do you mean sir, there is an all-inclusive rate?

Mr. GOBEL: Existing freight rate.

Mr. TUMMON: Existing freight rate on your twenty minute service, whereby you pick up the packaged freight, take it to the station, and the incoming freight you deliver to their door at no extra cost.

Mr. FAIRWEATHER: That is included in what we call our pick up and delivery rate.

Mr. TUMMON: Extra service.

Mr. FAIRWEATHER: It is to meet the competition.

Hon. Mr. EULER: Your regular rates were not increased although you put on extra service?

Mr. FAIRWEATHER: In some cases we have reduced them.

Mr. FULLERTON: We had to reduce them to meet competition.

Hon. Mr. EULER: There have been no increases.

Mr. HUNGERFORD: I do not know of any case where the rate has increased. We have reduced the rate in many cases in order to secure more business.

Mr. HEAPS: Before you pass clause four, which says, "The Minister of Finance with the approval of the Governor in Council may make from time to time during the fiscal year 1935-36 accountable advances not exceeding in the aggregate \$44,000,000" I am going to ask you this. What I am interested in now is trying to get a fair picture of the operation of the railways as we have them to-day, as compared with the time when the government took over the whole system, and that is shown, Mr. Chairman, I think in the answers to the questions which I asked last Thursday, replies to which have been given to us this morning. I think this is the proper time to try to make a reasonable comparison. I think we are all staggered by the annual losses of the railway, but when I read the statement that has been submitted to us, perhaps the picture does not look quite as bad as it is usually painted. Now in the third line of the figures submitted here, I find four sets of losses—if I am wrong I hope I will be checked, because I received this a few moments ago. I find that in the five years prior to the taking over of the railways on the Canadian Northern railway system there was a loss as shown at December 31, 1922, \$100,827,852.13; on the Grand Trunk Pacific railway system for the same period there was a loss of \$50,652,322.01; on the Grand Trunk railway system for the same period there was a loss of \$39,391,251.72, and on the Canadian government railways for the same period there was a loss of \$31,630,668.07. Now, on the whole of those five years there was a total loss of \$222,502,093 on all those railways. Now, if I take it and divide it over the five years, I find according to the figures submitted, there was an annual average deficit of \$44,500,418.

I do not want to go too carefully into this statement, but it does not show any payment of any government advances to railways. We have to bear in mind we are now passing through rather depressed times and large deficits are more or less likely to occur. These deficits incidentally run from the years 1917 to 1922.

Mr. COOPER: 1918 to 1922.

Mr. HEAPS: At a time when there was a vast amount of traffic on the railways resulting from war conditions and after the war conditions, and at that time the railways that were taken over by the government showed annual losses equivalent to the estimated deficits for the years 1935 and 1936 when we are passing through one of the worst depression periods we have known in the history of the Dominion of Canada. I think it is only fair to publish those figures so as to get a reasonable picture of the railway situation here in Canada.

Mr. POWER: May I take it, Mr. Chairman, that we can say without fear of contradiction that the average annual losses on the four railways which now compose the Canadian National system for the five years prior to 1932, were something like \$44,000,000?

Mr. COOPER: That is correct.

Mr. POWER: And for the years from 1923 to 1932 the average annual loss was \$19,000,000 for the same roads in the same system.

Mr. COOPER: I do not have the ten years that you spoke of, 1923 to 1932, but from 1923 to 1934 the average annual loss was \$27,000,000. It would be less in the ten years you spoke of.

Mr. POWER: Then on the average the annual loss since the completion of the consolidation of the Canadian National system was \$27,000,000 whereas prior to the consolidation it was \$44,000,000.

Mr. COOPER: For the five years prior.

Hon. Mr. EULER: A comparison between private and public ownership.

Mr. POWER: May I continue? In the total deficits listed here for the five years, we find Canadian Northern Railway system, \$100,827,852.13. That was a privately owned system, was it not?

Mr. COOPER: Not in 1922.

Mr. POWER: Up to October 1, 1917?

Mr. COOPER: Yes, from 1918 to 1922.

Mr. POWER: The deficit on the Grand Trunk Pacific was \$50,652,322.01 at the end of the period, and it was privately owned to March 1919.

Mr. COOPER: Correct.

Mr. POWER: The Grand Trunk railway system had a deficit of \$39,391,251.72 up to the end of the period, December 31, 1922, and it had been taken over on May 21, 1920.

Mr. COOPER: Correct.

Mr. POWER: The Canadian government railways, which is the last, had a deficit of \$31,630,668.07 and it was a publicly owned railway.

Mr. COOPER: That is correct.

Hon. Mr. EULER: And if these railways when they were privately owned had the truck competition their losses would have been still more.

The CHAIRMAN: Are there any other questions on section 4? Shall section 4 carry?

Carried.

The CHAIRMAN: Section 5.

Carried.

Mr. GRAY: Is 5 the usual clause?

The CHAIRMAN: 5 is the usual clause, yes. Shall the preamble carry?

Carried.

The CHAIRMAN: Shall I report the bill?

Carried.

The CHAIRMAN: Now, gentlemen, the estimates are before you of the Canadian National Steamships.

Mr. POWER: Were any of those vessels sold during the year?

Mr. HANBURY: Yes, sir, one.

Mr. LABELLE: There was a ship that was sold by the late board in 1933. The offer was made to the Canadian National on the condition that the ship would be scrapped at Halifax. They did not take delivery of the ship in 1933 and in 1934 we revised the deal relieving them of scrapping the ship at Halifax.

Mr. HANBURY: What was the idea of asking them to scrap at Halifax?

Mr. LABELLE: They made their offer to the Canadian National to purchase the ship and it was to be scrapped at Halifax. That was embodied in the resolution of the board. Later on they decided not to scrap at Halifax, and before taking delivery they asked us to agree.

Mr. HANBURY: You had to pass a new resolution?

Mr. LABELLE: Yes, sir.

Mr. GRAY: We have had this matter up year after year. I know Col. Cantley and Mr. Duff and others have been urging the company to get rid of this whole system. I think I am right, Col. Cantley? Has any attempt been made to sell those ships as a whole instead of singly?

The CHAIRMAN: Are you speaking of the West Indies service?

Mr. GRAY: No, the Canadian government merchant marine.

The CHAIRMAN: We are not on that yet. 293 is West Indies.

Mr. GRAY: All right.

Mr. HEAPS: Mr. Chairman, I notice there is a very welcome decrease in the amount of the deficit this year as compared with other years. May I ask what the cause of that is?

The CHAIRMAN: In fact, we made a lot of money.

Mr. LABELLE: More freight, more passengers.

Hon. Mr. EULER: If you are going to get the actual loss, instead of it being \$316,000, you would have to add on the interest on the bonds.

Mr. LABELLE: Yes.

Hon. Mr. FULLERTON: Depreciation and all that sort of thing.

Mr. LABELLE: It is in the report, Mr. Euler.

Hon. Mr. FULLERTON: It is in the report.

Hon. Mr. EULER: \$316,000 means the amount you fell short of making operating expenses; is that right?

Mr. COOPER: The amount short, including bond interest.

Mr. HEAPS: It has the same ratio to the showing this year as the \$1,020,000 had last year. That \$1,020,000 included interest and all other charges?

Hon. Mr. EULER: It says "—not including non-cash items and interest on dominion government advances, occurring during the year ending December 31, 1935 in the operations of the company and of the vessels under the control of the company—". If you pay the interest on the Canadian government advances you would have to increase the \$316,000 of losses; that is right, is it not?

Mr. SMART: Yes; but there is a bond issue. The interest on the bonds is there.

Hon. Mr. EULER: That has been provided for.

Mr. SMART: Yes.

Mr. MACMILLAN: What is the amount of the bond?

Mr. SMART: \$9,400,000.

Mr. MACMILLAN: Where do the *Prince David* and *Prince Arthur* come in this report?

Mr. FRANKLIN: They are not in this picture at all.

Mr. MACMILLAN: Where are they?

Mr. FRANKLIN: Canadian National railways.

Mr. SMART: What do you mean?

Mr. MACMILLAN: The *Prince Arthur* and *Prince David*.

Mr. SMART: They do not belong here at all.

Mr. MACMILLAN: They are shown in the statement of the Canadian National Railways.

Mr. SMART: Yes.

Mr. MACMILLAN: As a steamship item?

Mr. SMART: Yes.

Hon. Mr. EULER: Would this be right, to get the correct actual loss you would have to add to the \$316,000 given there the non cash items such as depreciation, I suppose, and the interest on the dominion government advances; is that correct?

Mr. COOPER: That is correct.

Hon. Mr. EULER: Now tell me how much that would be?

Mr. LABELLE: You will find it on page 17.

Mr. COOPER: Add about \$600,000.

Mr. HANBURY: It is more than that.

Mr. HEAPS: That would not include the item of \$316,000.

Hon. Mr. FULLERTON: It will have to be added to the operating deficit.

Mr. HEAPS: This is the net showing of the operation after paying the charges on the system.

Hon. Mr. FULLERTON: Except depreciation.

Mr. HEAPS: How much is that?

Mr. COOPER: The money which the government will be asked for in the year 1935 is \$316,000.

Hon. Mr. EULER: It does not comprise the whole cost?

Mr. COOPER: No. It excludes depreciation and interest due the Dominion.

Hon. Mr. EULER: You have given the depreciation here for 1934 as \$319,000 and interest due the government \$288,000 and small charges of amortization and discount.

Hon. Mr. FULLERTON: That is right.

Hon. Mr. EULER: Which makes a total of \$600,000; so that the actual loss is a little under \$1,000,000. Is that right?

Mr. COOPER: Yes, sir.

Mr. HEAPS: Am I to infer the \$1,020,000 as shown last year did not include the items that Mr. Euler has just referred to?

The CHAIRMAN: It is on the same basis, exactly.

Hon. Mr. EULER: You have to add depreciation and interest on the debt owing the government to get the actual loss.

The CHAIRMAN: Now we come to item 294.

Mr. POWER: May I ask a question? I notice in the income account that in the year 1933 in regard to the West Indies there is an item of interest and exchange of \$54,369.61. There is an item also—

The CHAIRMAN: What is the page?

Mr. GRAY: Page 17. There is an item also of \$6,891.17. How do we account for that difference?

Mr. COOPER: \$54,000?

Mr. GRAY: Yes.

Mr. COOPER: These West Indies bonds are payable in three ways, Canadian, New York and London, and the exchange on New York last year was very heavy; it cost us about \$58,000 to purchase the New York funds to pay the \$470,000 bond interest.

Mr. HANBURY: Has any budget been made of the probable earnings for the year in the West Indies service?

Hon. Mr. FULLERTON: Yes, in the estimates.

The CHAIRMAN: \$45,000.

Hon. Mr. FULLERTON: An operating deficit of \$45,000 for the C.G.M.M.

Hon. Mr. EULER: In other years this committee has recommended that we dispose of the whole outfit—I mean the Canadian Merchant Marine.

The CHAIRMAN: We are now on vote 294.

Mr. MACMILLAN: Before you pass that item, Mr. Chairman I should like to say there evidently has been a very great increase of the traffic in this service.

Hon. Mr. FULLERTON: There has been a tremendous improvement in the West Indies service.

Mr. MACMILLAN: How do you account for that; is it freight and passenger, or both?

Hon. Mr. FULLERTON: Both freight and passenger.

Hon. Mr. EULER: Perhaps the British Empire agreements stimulated the service.

Mr. POWER: Hear hear, prosperity—

Mr. GRAY: My question was, in past years the members of the committee, and I think the committee pretty well unanimously urged upon the former president of the Canadian National and I think last year upon the new chairman of the board of trustees, that we dispose of this fleet if at all possible as a unit, or at least get rid of them all. On the 31st December, 1934, we were still carrying ten vessels. I should like to know from the Chairman of the Board if any attempt was made to dispose of the fleet last year, and if so with what results?

Hon. Mr. FULLERTON: Some time ago there was an offer made for the purchase of the fleet by some English companies who were willing to take it over, purchase our ships and operate them without subsidy, but the offer was not accepted.

Mr. GRAY: When was that offer made?

Hon. Mr. FULLERTON: I think it was made in November, if I am not mistaken, but I can tell you in a moment, as soon as I can get my file. The offer was made November 29, 1934.

Mr. GRAY: You have told us sir, there was an offer to take over the whole fleet and to operate the service; that we would maintain the New Zealand and Australian services, but there would be no subsidies.

Hon. Mr. FULLERTON: Yes.

Mr. GRAY: Did your board recommend that it be accepted?

Hon. Mr. FULLERTON: We did.

Mr. GRAY: And is it a matter that it has not been accepted or still under consideration?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: Turned down?

Hon. Mr. FULLERTON: No, it was not accepted.

Mr. GRAY: Mr. Chairman, I do not know how the other members of the committee feel, but I feel from what the Chairman of the Board has just said, that I should like to hear him read his report to the government; because we have been carrying this year after year, and I again say that Col. Cantley has taken a decided stand with respect to this matter—what do you say, Col. Cantley?

Mr. CANTLEY: Pardon me, will you be good enough to let us know what the service offered?

Hon. Mr. FULLERTON: It was proposed to operate the Australian and New Zealand services practically the same as we operate them now.

Mr. CANTLEY: They are not operating at all now, as I understand it. They are laid up.

Hon. Mr. FULLERTON: What is laid up? We have a regular service to Australia and New Zealand.

Mr. CANTLEY: The whole ten in service?

Hon. Mr. FULLERTON: Eight in service.

Mr. CANTLEY: Where are the other two?

Hon. Mr. FULLERTON: The other two are laid up, one for repair and the other laid off.

Mr. CANTLEY: What is the cost of their lay-up?

Hon. Mr. FULLERTON: I can get you those figures.

Mr. LABELLE: There was one laid up in Halifax last winter, and the *Leader* is being repaired just now.

Mr. HEAPS: What size boats are they?

The CHAIRMAN: They are all listed on page 9.

Mr. SMART: I should like to say something about that. I think you ought to wait until the minister returns.

Mr. HANBURY: I think we should have full information.

Mr. SMART: I think you ought to wait for the minister. There are certain things in connection with the offer that the minister wants to take up. Rather than discuss it now I think you had better wait until the minister is here.

Mr. GRAY: Mr. Chairman, I am quite in accord with that. This is most important. I am amazed to find that the board of trustees had an offer and have been able to recommend it—that is what the chairman of the board has said.

Mr. SMART: It is not as simple as it sounds.

Mr. GRAY: Perhaps not, sir.

Mr. SMART: I think you ought to have the minister here.

Mr. GRAY: It seems to me that greater details must be given to this committee in connection with the offer; but I am quite prepared to accede to the suggestion that the minister should be here, although I do not particularly see the reason for it. We passed a bill in which we took away from the minister, so-called, the control of the Canadian government merchant marine and the Canadian National and placed them in the hands of the trustees, and as far as I am concerned, I would be quite prepared to hear Mr. Justice Fullerton's statement with respect to it.

Mr. SMART: That is not quite the position, sir.

Mr. GRAY: It is arguable.

Mr. SMART: The Canadian Government Marine is not turned over to the trustees.

Mr. GRAY: They are operating it.

Mr. SMART: Quite true. The trustees are the directors of the steamship line, the government owns those ships and the trustees cannot dispose of them themselves.

Mr. GRAY: The trustees cannot dispose of the railways themselves.

The CHAIRMAN: I suppose what is meant is, the matter must have come before Dr. Manion—

Mr. GRAY: I am quite prepared to let the matter stand until the minister is here.

The CHAIRMAN: I do not suppose it interferes at all with the estimate, does it?

Mr. GRAY: Yes. I am certainly not going to let the estimate pass without complete explanation.

Mr. POWER: Let that item stand.

The CHAIRMAN: Let us go on to 295, which is loan to the Canadian National (West Indies) Steamships Limited. Are there any questions in regard to this item?

Hon. Mr. EULER: What capital expenditures are proposed to be made there?

Mr. FAIRWEATHER: It is shown on schedule 5 of the pamphlet which was handed to you, \$178,000: "re-vote of unexpended balance of amount of \$253,500 approved in 1934 for additional refrigeration plant and insulation—".

Hon. Mr. FULLERTON: This amount was voted last year for refrigeration of the steamships.

Hon. Mr. EULER: You did not carry it out?

Hon. Mr. FULLERTON: The work is nearly completed now. It was not completed last year. \$178,500 will complete the refrigeration and \$17,500 will be used in the change we are making in five of the boats to provide more accommodation. We are turning two suites into double rooms.

Mr. MACMILLAN: Passenger accommodation.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Item No. 296. I am afraid we cannot do anything about that.

Carried.

Item 297, carried. This also is the splendid arrangement we have made down there.

Mr. GRAY: Is that under your breath?

The CHAIRMAN: Item 294 stands in the meantime.

Mr. MACMILLAN: That is all in regard to the steamships?

The CHAIRMAN: We have the report. This is just the estimates. We have to go through the report, I fancy.

Mr. HANBURY: Before you proceed with that, there was some discussion at our last meeting with reference to the pensions, and no statement was made with reference to the Grand Trunk Superannuation fund. I should like to have the information that is available in that connection.

Hon. Mr. FULLERTON: I have a statement here, and perhaps if I read it it will give the explanation required.

The Grand Trunk Railway of Canada Superannuation and Provident Fund Association was formed in 1874. Membership in the fund was compulsory and employees were forced to contribute to the fund, the Grand Trunk Railway company of Canada contributing an equal amount.

The present rate of contribution is $2\frac{1}{2}$ per cent of salary by the employee and an equal amount by the company.

The fund is administered by a committee of management.

The fund was closed to new members on December 31, 1907, and members at that time were given the option of withdrawing their contributions and coming under the provisions of the non-contributory pension plan of the Grand Trunk which was established at the same time, or of continuing in the Grand Trunk Superannuation Fund.

For many years after that date the assets of the fund continued to increase due to the income being greater than pension payments, but the time has now arrived when pension payments exceed income and it becomes necessary to liquidate the assets. Most of the society's funds are in the form of first mortgages on real estate in the city of Montreal, and the Society has been hampered in obtaining necessary liquid funds by reason of the current moratorium on the payment of mortgage principal. Also, due to the depression a number of properties have fallen into the hands of the society by reason of default on interest payments on mortgages. The taking over of these properties involved repossessioning charges and other costs which made further demands on the liquid assets of the Fund, the result being that the readily available liquid assets of the fund will be exhausted on May 1, 1936, unless favourable developments take place in the meantime. The position of the fund as of December 31, 1934, was as follows:—

Number of contributors.. . . .	179
Number of pensioners (as at December 31, 1934).. . .	149
Over 80 years of age.. . . .	7
70-80 years of age.. . . .	39
65-70 years of age.. . . .	50
60-65 years of age.. . . .	35
55-60 years of age.. . . .	14
Under 55 years of age.. . . .	4
Estimated pension payroll, 1935.. . . .	\$ 286,245
Book value of assets in the fund.. . . .	\$4,371,062 63

Actuarial reports on the fund which have been made from time to time on the assumption that the assets would yield 5 per cent compound interest per annum have shown the fund to be on a sound actuarial basis. If, however, the assets of the fund are valued on a more conservative basis than 5 per cent and allowance is made for possible losses in connection with properties which have been or may be taken over, the Fund has an actuarial deficit of approximately \$650,000. The smallness of the group, which comprises a total of 328 members, makes it impossible to accurately forecast the actuarial result.

As indicated above, the problem at the present time is one of a lack of liquidity of assets. The situation in this regard, as well as the future of the fund is receiving careful study.

Mr. HANBURY: Have the trustees come to any conclusion as to what is going to be necessary in order to maintain the fund?

Hon. Mr. FULLERTON: No. The report is not in yet; the matter is being studied by the committee. We have not received the report of the committee yet, but we are giving the matter very careful attention.

Mr. HANBURY: Could you say whether it is the intention to reduce the pensions or to ask the government or the railway company to augment the assets?

Hon. Mr. FULLERTON: I am afraid the latter may have to be the alternative, but the matter has not yet been considered.

Mr. HANBURY: The only alternative?

Hon. Mr. FULLERTON: The only alternative. I am doubtful that you could ask for a reduction of pensions.

Mr. MACMILLAN: How does their pension in amount compare with the new system you brought into effect?

Mr. FAIRWEATHER: It is a somewhat more generous amount. It is based on 1/60th of an employee's compensation with the maximum at the top, but you see that is a good deal more generous than the provisions under the old pension plan. So far as the company is concerned, of course, the contribution by the company would be, say, only half of that.

Mr. HEAPS: You gave us the book value of the assets of something over \$4,000,000. What is the actual value of those assets to-day?

Hon. Mr. FULLERTON: That is all under study. They are making a complete study of the whole thing. We expect a report within the next month. The matter is receiving attention.

Mr. MACMILLAN: Mr. Fullerton, you said the assets being valued at \$4,000,000 were arrived at upon an actuarial basis.

Hon. Mr. FULLERTON: Oh, no. Liabilities for pension were arrived at on an actuarial basis.

The CHAIRMAN: Book value.

Mr. HANBURY: Would legislation be necessary if you decided to augment that loan?

Hon. Mr. FULLERTON: Oh, yes.

The CHAIRMAN: If your assets were liquidated out of the value stated in the books now.

Hon. Mr. FULLERTON: There would be a surplus.

Mr. FAIRWEATHER: If the assets could be liquidated on a basis of 5 per cent compound interest there would be a small surplus of funds.

The CHAIRMAN: Your holding is liquidated and also there is a possibility of depreciation?

Mr. FAIRWEATHER: That is it.

Mr. HANBURY: Is it suggested that you might ask for legislation at this parliament?

Hon. Mr. FULLERTON: Not at this parliament. I think we can carry on for the time being, but next year if things do not get better we may have to ask if there are very many payments.

Mr. MACMILLAN: What are the investments?

Hon. Mr. FULLERTON: Nearly all are mortgages on real estate in Montreal which in the old days were considered gilt edged.

Mr. MACMILLAN: Have they been switched from time to time?

Mr. FAIRWEATHER: Yes.

Mr. MACMILLAN: Are there any Hydro bonds among them?

Hon. Mr. FULLERTON: I do not know.

The CHAIRMAN: Have you made any loans in the last two or three years?

Mr. FAIRWEATHER: I do not think any mortgage money has been put out for a few years. These mortgages are usually for three to five year periods, and as the mortgages come in they are renewed. Of course, they have to be because of the moratorium at present, so long as the interest is kept up.

Hon. Mr. EULER: Are there any interest defaults?

Mr. FAIRWEATHER: Yes.

Mr. MACMILLAN: It would seem to me that a fund of \$4,000,000 would become seriously frozen?

Mr. FAIRWEATHER: Of course, a great deal of money was invested in mortgages and the moratorium froze the situation.

Mr. HEAPS: It did not freeze the interest charges.

Mr. FAIRWEATHER: No; but the interest charges are not enough to meet the pension payment. The matter is at a point where the income from the funds is not sufficient to pay the pensions, and we have to liquidate like all other mutual insurance or pension groups which are closed.

Mr. HEAPS: Mr. Fullerton told us that you have taken over a number of properties in order to try to protect the equities there. Are those a losing proposition or are they paying their way?

Mr. LABELLE: They are a losing proposition in some cases. In some cases the city was going to sell the properties at public auction so the fund paid the taxes and sought to protect their mortgage on the property. That is what we are doing just now. It went on the property as the basis of a new valuation. In some cases the property would be for sale.

Hon. Mr. EULER: Do you think the capital value is sufficient to cover the mortgage?

Mr. LABELLE: I do not know. In some cases in Montreal the property would be sold for the book value provided the real estate market were better; but there is no purchaser now.

Mr. MACMILLAN: Who are the custodians for the fund?

Mr. FAIRWEATHER: It is a special committee.

Mr. MACMILLAN: How is it appointed?

Mr. FAIRWEATHER: By legislation.

The CHAIRMAN: I think the names were read out here by Mr. Fullerton.

Mr. MACMILLAN: What is the personnel?

Mr. FAIRWEATHER: The names of the committee of management are: S. J. Hungerford, W. S. Harrison, D. C. Grant, E. E. Fairweather, Alistair Fraser, C. W. Johnston, R. W. Long, J. P. Pratt, F. L. C. Bond, T. T. Irving and George H. Jenkins.

Hon. Mr. EULER: Who appoints them?

Mr. FAIRWEATHER: Some members are elected by the pension group, the balance are officers, stated officers of the company.

Mr. MACMILLAN: Has that always been so?

Mr. FAIRWEATHER: Yes. It is provided for in legislation.

Mr. HANBURY: Is there any salaried manager?

Mr. FAIRWEATHER: Naturally the fund has some managerial expense. There is no salaried manager but there is a secretary.

Mr. MACMILLAN: They do not happen to own the mortgage on the house in Montreal, do they?

Mr. HANBURY: Mr. Fullerton, in what way do you get authority to contribute to your new pension fund; is that by legislation?

Hon. Mr. FULLERTON: By legislation, yes.

Mr. HANBURY: You have not had legislation recently?

Hon. Mr. FULLERTON: No.

Mr. LABELLE: For the new pension scheme there is no legislation.

Hon. Mr. FULLERTON: We adopted an old act of parliament which seemed to provide the necessary facilities.

Mr. HANBURY: Would not that act of parliament give authority to augment this other fund?

Hon. Mr. FULLERTON: Oh, no. In connection with the Intercolonial Provident Fund we had to get authority. The money was being paid year after year without authority of parliament at all. Last year we had to come to this committee and get a recommendation—authority for the payment of it, and we may have to do the same thing with the Grand Trunk in case it is necessary.

The CHAIRMAN: Do you find, Mr. Labelle, that there has been any mistake in investment? Your experience is not unique as a property holder.

Mr. LABELLE: We find the same situation in Montreal for all those who have loaned money.

The CHAIRMAN: The investments seem to be justified—to be all right, do they?

Mr. LABELLE: Yes.

The CHAIRMAN: Are there any other questions under pensions?

Mr. FAIRWEATHER: Some questions were asked about the new and old plans. I thought it might be of assistance to the committee if I drew up a little statement showing points of comparison.

The CHAIRMAN: Will you put that in, or will we have it read?

Mr. HANBURY: I think we should hear it read.

COMPARISON OF C.N.R. CONTRIBUTORY PENSION PLAN MADE EFFECTIVE JANUARY 1, 1935, WITH THE NON-CONTRIBUTORY PENSION PLAN IN EFFECT PRIOR TO THAT DATE.

NEW PLAN

Age of Retirement

Compulsory at age 65 for all employees except certain officers.

Qualifications for Pension

(a) To an employee in service January 1, 1935, who joined service prior to age 50 and who attains the age of 65 with at least 15 years allowable service.

(b) To an employee joining the service subsequent to January 1, 1935, prior to age 45 who attains age 65 with continuous service.

(c) To an employee of age 60-65 if retired by reason of physical or mental disability with 20 or more years allowable service.

(d) To an employee disabled in company's service with 10 years or more allowable service. (Gratuitous).

OLD PLAN

Normally at 65, but many employees were continued in service beyond that age.

(a) To an employee attaining the age of 65 or over, having joined service prior to age 50 and having at least 15 years allowable service.

(b) To an employee if retired by reason of physical or mental disability at age 60-65 with 20 or more years allowable service.

(c) To an employee if disabled in the company's service having 10 or more years allowable service.

(d) To an employee discharged at age 50 or upwards for other than misconduct having 15 years or more allowable service.

(e) To an employee discharged for reasons other than misconduct at age 50 or upwards, having 15 years or more allowable service. (Gratuitous).

(e) Compassionate allowances in special circumstances.

NEW PLAN

OLD PLAN

Amount of Pension

Non-contributory service or basic pensions:

(a) To employees having 10 or more years service at January 1, 1935, and who at retirement have necessary service qualifications, a service pension in lieu of provisions of old pension plan, the amount of which is 1 per cent of average best 10 consecutive years compensation up to January 1, 1935, for each year of allowable service to same date with minimum of \$300 per year.

(b) To other employees who at retirement have necessary service qualifications a basic pension of \$300 per year.

Contributory supplemental annuity: To all employees who contribute such supplemental annuities as may be purchaseable at retirement age from combined employees and company contributions compounded.

Employees become eligible to contribute after 10 years from date of last entry into service. Contribution voluntary, and in any percent up to 10 per cent. Company meets this contribution up to 5 per cent, provided that the company's portion of any pension in the form of service or basic pension, together with the company's share of the supplemental simple annuity, shall not exceed 40 per cent of employee's best average compensation for any 10 consecutive years prior to retirement, provided further that this limitation shall not reduce any service pension. Gratuitous Pensions:—

To an employee disabled in the company's service with 10 years or more allowable service, or to an employee discharged for reasons other than misconduct at age 50 or upwards with 15 years or more allowable

Generally fixed at 1 per cent of average best 10 consecutive years, compensation for each year of allowable service.

Example: Average best 10 years, compensation \$1,200 per year.

Years of service—40.

Pension, \$480.00.

service, a gratuitous pension, the amount being determined by the circumstances.

Other Provisions in the New Plan

If an employee dies before retirement or leaves service his contributions with accrued interest will be paid to his heirs or returned to him.

The pensioner may select any one of the following types of pension:—

(1) A straight life annuity.

(2) A life annuity guaranteed for a stated number of years.

(3) A joint and survivor annuity provided that no option as to type of annuity shall be allowable that would result in the total annuity payments to any retired employee being less than \$300 per year.

Options have the same actuarial value.

Mr. HANBURY: Mr. Chairman, I would like to enquire whether any employee discharged for misconduct receives any pension whatsoever?

Mr. FAIRWEATHER: Oh, no, sir.

Mr. HANBURY: Regardless of any contributions he may have made?

Mr. FAIRWEATHER: He would get his contributions back with compound interest.

The CHAIRMAN: That is somewhat different from our own fund in the civil service.

Hon. Mr. EULER: Yes. It is quite unfair in the case of the service.

The CHAIRMAN: I think so too. Now, gentlemen, are there any general questions which you want to ask about page 3?

Hon. Mr. EULER: What are you at now?

The CHAIRMAN: I thought we would run over this general report of the trustees, and it occurred to me, subject to other suggestions, that we could go over this as quickly as possible because it will all come up in separate accounts later.

Hon. Mr. EULER: Not all.

The CHAIRMAN: That is why I am suggesting that we go through it if there are any questions. Take operating revenue.

Mr. HANBURY: Mr. Chairman, in connection with the operating revenue, I should like to have some information from the trustees with reference to what effect the low rate for passenger traffic had on the increase of traffic and whether they are giving any consideration to a lower basis for passenger traffic in Canada.

Mr. HUNGERFORD: I think your question had two phases.

Mr. HANBURY: Yes.

Mr. HUNGERFORD: The first phase was what?

Mr. HANBURY: What was the result of your experiment last year in putting in low rates, or what you might call excursion rates, in encouraging passenger traffic.

Hon. Mr. FULLERTON: The excursion figures for 1932 were \$273,236; 1933, \$508,777; 1934, \$842,438.

Mr. HANBURY: That shows a remarkable increase.

Hon. Mr. FULLERTON: It does.

Mr. HANBURY: That is the number of passengers, I presume?

Hon. Mr. FULLERTON: No, the earnings. The number of passengers was 87,000 in 1932, 184,000 in 1933, and 329,000 in 1934.

Mr. HANBURY: That shows that if people can travel at an economical rate they will take advantage of the opportunity.

Hon. Mr. FULLERTON: There is no doubt of that.

Mr. HANBURY: Have you information to show whether there was a greater net return to the railway as a result of the increase in traffic, even considering the low rate?

Mr. HUNGERFORD: Yes, I think there was, Mr. Hanbury; but this has to be taken into consideration, that we can only secure sufficient patronage by running those excursions at rather infrequent intervals. If we run them too frequently we do not get the value from them. If we run them at infrequent intervals, they show us a very good return, but there is a limit beyond which you cannot go.

Mr. HANBURY: I think I can concede that point, Mr. Hungerford, but I have some criticism to offer in connection with your excursion trains last year. I travel on many of them and I find that you are running trains of 16, 17, 18 and I think sometimes 19 cars—I travel on a pass so I am justified on complaining. The average passenger sometimes gets a very rough ride on account of the weight of those trains. You require people who desire to take advantage of those low rates to travel at one particular time, and it occurred to me that if you had stated days, instead of requiring a man to return from Vancouver, we will say, in a period of a week or ten days, on which a passenger could leave his home and return, probably requiring him to notify the railway company in advance so the railway would have the equipment available on that particular train, I think it would be very advantageous. It seems to me it is hardly reasonable to expect people to go for a very definite period and travel on certain prescribed days. You are operating your trains anyway, and it is just a question of providing equipment. There is no reason why you cannot provide the equipment as well as on Tuesday, providing you knew what equipment you would be required to furnish.

Mr. HUNGERFORD: I am not quite sure how it would work out. Of course, we would like to have all people travel at the standard rate.

Mr. HANBURY: You realize they won't do that?

Mr. HUNGERFORD: No.

Mr. HANBURY: Are the railways considering the scaling down of their rate structure for general passenger traffic?

Mr. HUNGERFORD: No, there has been no serious consideration of it. It has been under discussion more or less all the time.

Mr. HANBURY: They have made some reduction in the United States.

Mr. HUNGERFORD: In various places.

Mr. GOBEIL: How do they compare?

Mr. HUNGERFORD: Different rates have been put into effect in different parts of the country.

Hon. Mr. FULLERTON: The basic rate in Canada is 3.45; in the United States 3.6.

Mr. HUNGERFORD: That is simply the basic rate. They have departed from that in different parts of the country.

Mr. HANBURY: Has it been drawn to your attention that you are losing considerable traffic from the Pacific coast coming east in the first place as a result of cheaper—in the transportation field I don't think there is a great difference, but cheaper sleeping accommodation and further unquestionably better dining car accommodation. I know people who are leaving British Columbia coming east are travelling over the United States road, because you have scaled down your dining car perhaps a little too fine. Have you any information on that subject?

Mr. MACMILLAN: What do you mean by "scaling down too fine"?

Mr. HANBURY: In the first place charging more than competing roads in the United States.

Mr. CANTLEY: Up, not down.

Mr. HANBURY: I mean, they have cut it down too fine, trying too hard to balance the budget, put it that way. I think they have taken it to the point of diminishing returns, and I know they are losing traffic as a result of it. I know on many of the competing roads, particularly in the western United States, that they put a much finer meal in the dining car at a less price than either the Canadian Pacific or the Canadian National. My observation is that both railways are losing traffic not only on the railways, but in the hotels, as a result of it.

Mr. HUNGERFORD: It is a question of policy. On the whole our dining car rates are comparable with those in the United States, but you cannot compare one road with another on an isolated question.

Mr. HANBURY: I must have been unfortunate then, because I have not found it that way. I find that on the United States railway you can get a meal for 75 cents that will compare with a meal on either the C.P.R. or the C.N.R. for \$1.25.

Hon. Mr. FULLERTON: You mean a dinner?

Mr. HANBURY: Yes.

Hon. Mr. FULLERTON: I have never seen it.

Mr. HANBURY: If you travel from Vancouver down to Portland, on any of the railways, you will find that, I think.

Hon. Mr. FULLERTON: If you did it you would lose more money than you are losing now.

Mr. HANBURY: That is the point I should like to bring out. I assume in the first place that the dining car is operating on a loss. Can you give us information to show what the total operating cost of the dining car is, and what ratio the actual food bears to the total cost?

Hon. Mr. FULLERTON: We can get those figures for you.

Mr. HANBURY: It is not always just a question of the food. In many cases the food is served; but I am frank to say I feel as a result of the degree of economy that exists in both railway companies in Canada, many of the employees of the dining cars and of the sleeping cars and the hotels do not seem to have the same incentive to satisfy the public that they had in the past. I do not know whether it is the degree of economy that is responsible for that or not; I think it is, and I think the time has arrived when the Canadian railway companies have to instil in their employees again as they did a few years ago, the necessity of serving the public to the very best of their ability. I have no particular complaint to cite but that is the general feeling. I am frank to say I think perhaps in the hotels there is a better feeling among the employees of the C.N.R. than among the employees of the C.P.R. I think we have gone too far in our measure of economy; I think we are losing money as a result of the degree of economy we are practising to-day. I think both the railway companies are going to have to take that into consideration.

Hon. Mr. FULLERTON: So far as the dining cars are concerned, we did experiment with them last year. We tried cheaper meals and we found we were losing at a tremendous rate, losing very much faster. We tried to induce the people from the front end to come back by sending forward circulars showing the meal, what they would get it for, and all that sort of thing, but we found we were losing money too rapidly, and we had to increase prices. It does seem to me that the prices are very reasonable; that our dining car service is splendid—of course I should not say that, but I do say it is certainly closely watched.

Mr. CANTLEY: Mr. Chairman, I have been informed recently that you cannot get a fish dinner on the Ocean Limited.

Hon. Mr. FULLERTON: If that is so, it is serious; I agree with you, it is serious.

Mr. CANTLEY: Wait until I finish my story. The cost of the dinner was 75 cents and we got the best fish that could be obtained in this country. It was a very popular meal. Now it has been cut out and it is a great mistake in my judgment. I realize that you are losing a large amount of money in your dining car services and it is inevitable. You have to maintain it, but here is one point where you are making a loss, in my judgment. The range of food you are carrying in the car and the choice of the passenger is extravagant and out of all reason. You travel on the continent, you travel in England, and what do you get? As soon as you start on the journey from Glasgow, Scotland, a man comes in and wants to know if you want a dinner, and if you say yes, he asks you if you want the first choice or the second. He puts the menu before you; he gives you a meal for 2s. 6d., and another at 4s. 6d.

Hon. Mr. FULLERTON: That is the train going to Scotland?

Mr. CANTLEY: Yes, Englishmen go to Scotland, if you want to know who travels. Now the result of that is before they leave they know what supplies they want for that journey and it reduces the expense to the railways. We are carrying three times as much food on our passenger trains, and in our dining cars as we ought to carry, and the result is the waste must be tremendous.

The CHAIRMAN: I agree with you about the single journey from Liverpool up to London. When you get off a ship, anything they offer is good. It is the first meal and it is a good meal and you are prepared and ready to eat what is served to you. But suppose you are travelling for three or four days. Suppose you were going to the coast, you could not do that, could you?

Mr. CANTLEY: If you were going to the coast?

The CHAIRMAN: Yes, from here.

Mr. CANTLEY: You could pick up the supplies.

The CHAIRMAN: You could not do with the same meal for three or four days.

Mr. HANBURY: The same dining car does not go through.

The CHAIRMAN: I am citing Mr. Cantley's example of one particular meal. You do not want the same meal to-morrow and the day after.

Mr. CANTLEY: You change at Winnipeg and you change again further west.

Mr. MACMILLAN: Mr. Chairman, it is one o'clock, and I move we adjourn. Committee rose at one o'clock, to resume again at 3.45 p.m.

AFTERNOON SITTING

The committee resumed at 3.45 p.m.

The CHAIRMAN: The chairman of the board wishes to make an explanation.

Hon. Mr. FULLERTON: This morning I was asked with reference to the ships whether the trustees had approved the sale, and I said yes; but I find that I was mistaken. There was no formal resolution passed. On the day I received the offer I sent it forward to the Minister of Railways, and I consulted with Mr. Hungerford on that day, but I did not see Mr. Labelle until a day or two afterwards and I consulted with him and he approved, but I am not sure whether I consulted with Mr. Morrow or not. My impression is that I did, but I am not quite sure.

Hon. Mr. MANION: You never gave me any resolution of the trustees.

Hon. Mr. FULLERTON: Oh, no.

Hon. Mr. MANION: You wrote me a personal letter, saying that in your personal opinion—

Hon. Mr. FULLERTON: That is right.

Mr. GRAY: This morning the chairman of the board referred to a report that had been made by either himself or the trustees and he had the report before him, and I suggested then—you, Mr. Minister, were not here—that we should hear that report in detail so that we could get a clear explanation as to why the government, as I understood it this morning, had turned down the offer. Mr. Smart raised the question, and I rightly acceded to the fact, that perhaps there was some explanation. I said I was of the opinion that we should know what the offer was and have a full explanation as to why it was not accepted.

Hon. Mr. MANION: May I say, before Mr. Fullerton gives that, that I have no objection to him doing so, and I have no objection personally. The whole case as I remember it—and if Mr. Fullerton finds anything wrong with my statement of the case he can correct me—is that there was never any report from the trustees. There was the letter that Mr. Fullerton mentioned here and of which I have a copy with me. I looked through the file for it. Unfortunately, I was not here at the time the matter was introduced but my deputy told me that the subject was up, and I remembered that Mr. Fullerton had written me at some time on the matter—I think it was in November—

Hon. Mr. FULLERTON: December 1st.

Hon. Mr. MANION: That is right—telling me about this offer. Preliminary to that offer there had been a statement made by the Canadian National Steamships through Mr. Fullerton to me that our ships were naturally slow because of having been built about thirteen years ago and that some of the faster ships that were being run, partially at least, over that route from Australia to American ports at any rate were faster than our ships which were becoming obsolete and that, therefore, within a couple of years it would be necessary either to purchase new ships at a cost of about six and a half million dollars—to have them built or purchase them—or to get some private company to take these ships over since we ourselves would not be able to compete at that time. I do not mind saying that the idea of putting six and a half million dollars more by the Dominion government into ships considerably shocked me. Also I knew our past record of expenditures on ships and therefore I gave the subject considerable study and discussed it with the other members of the government. No final decision was arrived at because the question, like the other one we were

discussing this morning, is very complicated. For example, we have trade treaties with Australia and New Zealand, and the minute we begin dealing with this matter we have to deal with Australia and New Zealand. That adds a complication to it. I will illustrate that by one little instance. It had got into the papers some time ago that we were debating selling these ten or twelve ships which we have, and the representative of Australia got me out of council one day and wanted to know what we were going to do about the matter. They were particularly interested because there is a great deal of trade between the two countries.

Mr. BEAUBIEN: Is there anything in the agreement which compels the Canadian government to keep the steamships?

Hon. Mr. MANION: Not as far as I remember; but naturally in regard to Australia and Canada or New Zealand and Canada we would not like anything to interfere with our exchange of goods. Some companies—I do not wish to name them here, and there are certain things I do not like to say because the whole matter is sub judice so to speak—some private companies did come and make a proposal—at least they came and talked matters over with us first and made a proposal to Mr. Fullerton as chairman of the trustees because the trustees are also directors of the steamships—and I think the proposal took up about one page of ordinary writing paper, double spaced. I mention that because naturally in a proposal as brief as that there are many matters not dealt with. It is true that Mr. Fullerton wrote to me and said he was of the opinion that we should get out of the shipping business.

Mr. GRAY: We have been that way for some time.

Hon. Mr. MANION: Yes, for a long time. I have no quarrel with that.

Mr. HANBURY: As a matter of fact, it is part of the report of this committee.

Hon. Mr. MANION: I have no quarrel with that. I am of the same opinion. But it is not quite as simple as merely saying we should get out. That company when they made that proposal sent it to Mr. Fullerton and it was sent on to me, though I am not sure that they did not send me a copy direct. However, there are certain matters not dealt with at all. For example, their submission was very brief. They said they would take over the service but they did not say for how long.

Mr. GRAY: Perhaps, without prejudice, I might interrupt you there, because you were not here this morning, to say that when we were mentioning the question of the Dominion-Australian service that must be maintained it was stated to us this morning—if I am not correct, Mr. Fullerton will correct me—that they offered to maintain the service we have between Australia and New Zealand and they also offered to do it without a subsidy. Now, to my mind that is going a long way; I think it is a substantial offer.

Hon. Mr. MANION: Let me finish—

Mr. GRAY: I will.

Hon. Mr. MANION: That is correct in a sense; but they only said they would take over the service and do it without subsidy without saying for how long. They might take over the service—

Mr. HANBURY: You did not think to enquire?

Hon. Mr. MANION: I thought to enquire, of course, but I got no definite reply from them. They said they would take over the service and perform it without subsidy; but suppose at the end of a month or two they came back and said, “we have tried this out; we have taken over your ships; we thought we could do this without subsidy, but now we think we should be allowed a subsidy”—we would be in their hands. Now, they have never corrected that very important aspect of the case—never; and I may say that it is only one of the complications. They said they would put on the service, but they did

not even say in their submission anything about the class of boats they would put on. Conversationally, yes, they said they would be fast boats; but in this submission they did not say that and they did not say how often they would run the service, how often the trips would be. They implied that they would give the same type of service, and they implied, conversationally, that it would be a better service. It was not in the submission which they made to us, and they have never submitted to us a correction in regard to these definite points, the most important of which, without doubt, is that they shall carry on the service for some time. In my conversation with them before they made any submission—and I may say this that if they were going to make a proposition they must at least agree to carry out the service for a number of years—I pointed out what I am pointing out to you. Not only did I make the attempt to correct it, but I told them in advance before they made the submission that they must make a submission to us covering some stated period of time and I suggested five years at least and that naturally ten years would be preferred. They refused to tie themselves up that long and in their proposal to Mr. Fullerton they did not tie themselves at all.

Mr. HANBURY: Was that proposal after your conversation with them?

Hon. Mr. MANION: Yes. I am showing you how even with Mr. Fullerton's recommendation, and it was a personal recommendation—he said in his letter that he had not seen the other trustees—even with his recommendation and with the best intent we could not settle on a basis like that. They have never been more definite than that. I had them in my office. The negotiations are still going on. But what will ultimately come of it I do not know. I am most friendly to some proposal that will do the work, but I am not going to take a blind proposal of that kind, and I do not think any of my friends will suggest I should.

Mr. HANBURY: I understood that in your conversation with them that you laid it down as a requirement that in any deal that might be made they would have to enter into a contract for five or ten years. On a subsequent date they made a written offer to the chairman of the trustees.

Hon. Mr. MANION: That is right.

Mr. HANBURY: I think it is reasonable to assume that they were accepting your condition, otherwise they would never have made that offer.

Hon. Mr. MANION: Would you have accepted an agreement of that kind?

Mr. HANBURY: I would consider it of sufficient importance to do a little investigating and negotiating.

Hon. Mr. MANION: We haven't finished; but I told them that the offer was not definite enough, and they have never made it more definite.

Mr. HANBURY: Did you ever put down in writing to them what definite offer you would want from them?

Hon. Mr. MANION: No. They have made no other offer.

Mr. GRAY: Mr. Chairman and Dr. Manion, it seems to me that if the chairman of the board of trustees in whom is vested wide powers as chairman of the board of trustees, and one of the other commissioners recommended it, they must, as business men, have felt that it was definite enough for them to recommend to the government; and I think naturally—we are in the hands of the committee—without even giving the name because I am not concerned with the name—I think that this committee is entitled to know the offer and the recommendation which was made by Mr. Fullerton and the answer of the government. This is a very vital question. Mr. Hanbury has said we recommended in a report that the fleet be disposed of as soon as possible and apparently there was a definite offer, definite enough for the Chairman of the board to recommend to the government that it should be accepted. I think as far as I am concerned, and with all due respect to the reply of the minister, I am not satisfied. Perhaps you would not expect that it would satisfy me—

Hon. Mr. MANION: Apparently it is very hard.

Mr. GRAY: That is the position I find myself in.

Hon. Mr. MANION: I cannot understand such a position, because surely neither you nor Mr. Hanbury would suggest that if a steamship company offers in a most indefinite way, in a letter it is true, but in a most indefinite letter, to take over the services without any specifications as to time, that you would—

Mr. HANBURY: I submit the time has been taken care of by your statement here this afternoon.

Hon. Mr. MANION: You may be satisfied that the man would come forward, but I am not quite satisfied with an agreement that has for its basis a conversation—

Mr. BEAUBIEN: Did they offer a price for the taking over of the line and so forth?

Hon. Mr. MANION: They offered a figure in regard to taking over of our boats, yes. They made an offer and certain conditions in regard to the taking over of the boats, yes.

Mr. BEAUBIEN: Suppose they had bought the boats; suppose you had accepted the offer or the Canadian National had accepted the offer in this form and they had taken over the lines and discontinued them in the period of the year; how much would the Canadian trade with Australia and New Zealand have suffered. You have to-day competition in regard to the steamship services between Australia and New Zealand with Canada and these steamships belonging to the Canadian National are losing money.

Hon. Mr. MANION: How much would the trade have suffered?

Mr. BEAUBIEN: Yes. How much, or would it have suffered at all?

Hon. Mr. MANION: Well I do not know.

Mr. BEAUBIEN: The reason I asked that question is you made reference to it a few moments ago.

Hon. Mr. MANION: Let me put this to you: Suppose that this company that made the offer—and I have it right under my hand—had taken the boats over and carried on for six months and then came to us and said, "We won't carry on this without a subsidy; we demand \$1,000,000 or \$2,000,000 a year subsidy," and we said, "We cannot see our way clear to pay that subsidy," and then they said, "We will take the service off altogether," you can easily see that our trade would suffer a great deal if that happened.

Mr. BEAUBIEN: Are there not other services other than this company and the Canadian National between Australia and New Zealand to-day that are quite satisfactory?

Hon. Mr. MANION: Not that I know of, no. There is no service at all to-day between Australia and New Zealand and Canada except ours. I think I am correct in that; I do not know of any other service. There might be the incidental boat.

Mr. HANBURY: The Canadian Pacific have services.

Hon. Mr. MANION: On the Pacific coast.

Mr. DUFF: I wonder if I can ask the Minister of Railways a question. What would happen if all the boats on the Australia-New Zealand route were lost this afternoon? Would you replace them or let private companies take care of the service?

Hon. Mr. MANION: I think I would let the private companies take it.

Mr. DUFF: Then all this talk about this losing trade is just a waste of time.

Hon. Mr. MANION: Who is wasting time?

Mr. DUFF: Everybody.

Mr. GRAY: Here is a chance to get rid of all the boats.

Hon. Mr. MANION: I do not follow what you mean.

Mr. DUFF: I mean if those boats were lost to-day the business of the country would be looked after by private enterprise.

Hon. Mr. MANION: It may or it may not.

Mr. DUFF: Perhaps we should never have obtained the boats in the first place. They have lost the country twelve millions of dollars and this government and previous governments and the management of the railway kept them when they should have got rid of them long ago.

Mr. GRAY: Now we had a chance and you refused.

Mr. DUFF: Why are they not sold?

Hon. Mr. MANION: I have no quarrel with you there. I think I am perhaps just as anxious to get out of this business as you are. I am certainly not anxious to get out of it in such a way that some private steamship company may hold us up and cut off trade altogether.

Mr. DUFF: How can they do that? You do not have to pay them a subsidy unless you want to.

Hon. Mr. MANION: Suppose they said, "We won't run."

Mr. DUFF: Who?

Hon. Mr. MANION: The private company who is going to take them over. Suppose they said, "We are not going to carry on a service between Australia and New Zealand from Canada."

Mr. DUFF: I think it is none of your business if they do not want to carry on. It is their business, not yours.

Hon. Mr. MANION: It is some of our business in regard to the trade with Australia.

Mr. DUFF: Trade will take care of itself, and the quicker we realize it the better.

Hon. Mr. MANION: That is a matter of opinion.

Mr. POWER: Are we to take it the reason why these boats were not disposed of was a matter of government policy and not a matter of economical operation of the railway? That is to say, it would have been better for the railway, as a road, if we had got rid of the boats.

Hon. Mr. MANION: It has nothing to do with the railway. They are a separate entity altogether, and not run in connection with the railway.

Mr. POWER: It would have been better for the Canadian National system or the Canadian National Steamships. We would have saved money if we had got rid of the boats. Is that a fair assumption?

Hon. Mr. MANION: I do not know that it is necessarily fair.

Mr. POWER: The country would have saved money.

Hon. Mr. MANION: Probably. We are running these boats at the present time at an operating loss, generally speaking, not only a loss in depreciation and interest, but an operating loss generally. There are exceptions in regard to that. Generally speaking we are running them at a loss, but at the same time there are compensations. For example, we are doing a good trade with Australia. Surely it is important to us to sell our goods to Australia.

Mr. POWER: Wait a minute. This committee decided, and everybody that I ever heard mention the matter said the best thing for us to do was to get out of this Canadian National Steamship line. At that time we must have taken the business end of it into consideration, and we decided as a matter of principle that if there was any possibility we would get out of it. Then after hearing

what the minister says to us today I am all the more anxious to get out of it because of the possibility of it costing us \$6,500,000 shortly to renew those boats, to bring them up to date, to replace them.

Hon. Mr. MANION: Within two years.

Mr. POWER: The only reason why we did not take advantage of the offer made to us, which will first of all save us those deficits and, secondly, save us a proposed expenditure of \$6,500,000, is a matter of government policy?

Hon. Mr. MANION: No.

Mr. POWER: Administration policy. We would not get that trade with Australia?

Hon. Mr. MANION: No; I do not admit that. The reason we have not got rid of them is that they did not make an offer which was satisfactory. The offer to take over the boats, as I said—

Mr. HANBURY: The offer was satisfactory to the trustees, but not satisfactory to the government.

Hon. Mr. MANION: The trustees have to submit it to the government. It was not satisfactory to the trustees; it was satisfactory to one trustee.

Mr. HANBURY: Two trustees.

Hon. Mr. MANION: I have never had any word from any other trustee than Mr. Fullerton.

Mr. BEAUBIEN: Did you get an expression from one of the others?

Hon. Mr. MANION: Mr. Fullerton distinctly states in his letter to me that he had not discussed it with any of the trustees. What he might have done since, I don't know. I can only tell you what he said in his December letter. I have the letter here, and I think he will agree with me.

Hon. Mr. FULLERTON: I had not discussed it at that time.

Mr. GRAY: You admit that point?

Hon. Mr. MANION: What?

Mr. GRAY: The suggestion of Mr. Justice Fullerton.

Hon. Mr. MANION: The reason I did not accept it was I did not think it was a satisfactory offer, and I have not changed my mind by anything I have heard this afternoon.

Mr. GRAY: Might not the committee be taken into your confidence?

Hon. Mr. MANION: If it is the desire of the committee I don't mind at all.

Mr. DUFF: What was the offer?

Hon. Mr. MANION: The offer was to take over the boats or the service, without subsidy. There was no details as to the service or the length of time of the service. True, they said without subsidy, but they did not say without subsidy for any period of time. If they had said, we will do this for ten years, or some specific time, perhaps I might have cut it down to five years—

Mr. DUFF: How were they going to pay for the boats?

Hon. Mr. MANION: They were to be paid for in instalments.

Mr. GRAY: How much?

Hon. Mr. MANION: \$500,000.

Sir EUGENE Fiset: As the minister has given us parts of the offer, is there any objection to Mr. Fullerton's letter, as well as the offer of the company being given to the committee for our perusal?

Hon. Mr. MANION: I will tell you gentlemen. I do not know that there is any great objection except this, when a matter is still being considered by two parties, it is not, generally speaking, advisable to tell the whole world the details of the conversations. I have only the interests of the Dominion at heart. I am not arguing with anything personal in this matter.

Mr. POWER: We have the price offered. We have practically the terms; we have practically pretty nearly everything, I do not know anything else.

Hon. Mr. MANION: I do not mind saying I think you have got more than we should have given you in the circumstances. I have no personal feelings in the matter; but I do not think it is good policy.

Mr. DUFF: Is this the reason Mr. Allan resigned?

Hon. Mr. MANION: You had better ask Mr. Fullerton about that. I had nothing to do with it.

Mr. DUFF: I am asking somebody. Is this the reason the general manager of the Canadian National Steamship resigned?

Hon. Mr. FULLERTON: No.

Mr. DUFF: Why did he resign?

Hon. Mr. FULLERTON: The reason is that we asked him to resign.

Mr. DUFF: That is not sufficient for this committee. I want to know why he resigned. What was the reason for him resigning? We are entitled to know why he had to resign.

Hon. Mr. FULLERTON: I would prefer not to go into that matter unless the committee compels me to do it. If the committee compels me to do it, I am perfectly satisfied to give the reasons why his services were not satisfactory to the management.

Mr. POWER: That is enough.

Mr. DUFF: That is all right.

Mr. GRAY: Just one moment, Mr. Chairman. If there was an offer, whether it was indefinite or not is a matter of interpretation, perhaps, or certainly a matter of judgment. Certain instructions were then given why it would not be accepted at least in the terms in which I am taking it from what you have already stated. Now, what instructions were then given either by you or the Governor in Council to the Chairman of the Board of Trustees as to further negotiations to be carried on as between the company and the Merchant Marine.

Hon. Mr. MANION: No further instructions were given, but we took the attitude at that time—I on behalf of the government—took the attitude at the time we would not accept the offer as it was submitted to us.

Mr. GRAY: It apparently appeared a fairly decent offer? There are a few blanks to be filled in, but surely if the minister is sincere, and I have no doubt he is, in wanting to get rid of the service, and if he has told us there was this definite offer made with the exception that there are a few blanks, but there certainly was an offer upon which to base future negotiations. Are there any negotiations taking place?

Hon. Mr. MANION: Negotiations are on now.

Mr. GRAY: This was last November, six months ago.

Hon. Mr. MANION: No, December 1st.

Mr. GRAY: Then we will have the last day of November or the 1st of December, December, January, February, March, and part of April; will the minister tell us what further negotiations have taken place, because there has been plenty of time to have further negotiations.

Hon. Mr. MANION: I made it perfectly clear to the steamship company's concerned, unless they were definite in their proposal in regard to time, that we could not accept it, and they have never been definite since then. A few days ago,—and it has nothing to do with this committee—incidentally due to the fact there has been published—I will tell this, though perhaps I should not—some other foreign lines are thinking of getting into this service to a certain extent and would cut into the traffic of the Canadian National Steamships, I asked these companies to come and see me again. They saw me at the end of last week.

Mr. DUFF: The business would be done by other companies outside of the Canadian National Steamships?

The CHAIRMAN: Let us get this.

Hon. Mr. MANION: I do not know that.

Mr. DUFF: You said so.

Hon. Mr. MANION: No, I said some other companies were going to put certain services on that would cut in. Not necessarily regular services. The services the Canadian National Steamships are carrying on between Australia and Canada are regular services.

Mr. DUFF: True. But steamship services were carried on before this government ever built these boats in 1920 and 1921.

Hon. Mr. MANION: I presume so.

Mr. DUFF: And it will be done again.

Hon. Mr. MANION: I hope it will. But you will agree that we are carrying on quite a large trade with Australia and New Zealand, and incidentally a trade which is much more in our favour than theirs. In other words, we are selling them much more than they are selling us. Surely you will agree with me that it would not be wise to close out with a private company and unload all our boats and rest entirely in the hands of a private company. No matter how good a private company may be I should like some terms from the company as to the future carrying on of the service.

Mr. DUFF: What proportion of this business is done now by the Canadian Government Merchant Marine, with respect to Australia and New Zealand?

Hon. Mr. MANION: I don't know what proportion. I think most of it.

The CHAIRMAN: Most of it.

Hon. Mr. MANION: The Chairman says most of it. Incidentally, may I say that this is something they have added. Mr. Fullerton will bear me out in this, that the steamship management strongly recommended against the doing of this.

Mr. HANBURY: Why?

Hon. Mr. MANION: They gave reasons.

Mr. GRAY: Did they report to the Minister?

Hon. Mr. MANION: They reported to Mr. Fullerton and Mr. Fullerton sent it on to me.

Mr. GRAY: I can only judge by Judge Fullerton's expression of opinion, and I ask is that correct.

Hon. Mr. FULLERTON: I did not catch the statement.

Hon. Mr. MANION: He means the statement that the steamship management reported against selling these ships and perhaps building instead of selling.

Hon. Mr. FULLERTON: Yes. That was a long time ago. I think Mr. Allen was fully in favour of selling, as far as I know.

Mr. GRAY: Does the Minister agree with that opinion?

Hon. Mr. MANION: I would like to look up the date before I agree with it. I did not think it was so long ago.

Mr. GRAY: Let us have the date then.

Mr. POWER: I would rather hear you scrap than Bill Duff and Bill Euler.

Mr. CANTLEY: There is another point. Can the railway officials tell us how much freight originates on the Canadian National Railways, that is handled in connection with these boats?

Hon. Mr. FULLERTON: We could.

The CHAIRMAN: How much originates from the railways? It might originate on either of the roads.

Mr. GRAY: I will wait for Dr. Manion.

The CHAIRMAN: What is it?

Hon. Mr. MANION: I was looking up Mr. Allen's letter.

Mr. GRAY: The Minister's statement is that the officials of the Merchant Marine did not approve of this.

Hon. Mr. MANION: No, and they gave reasons. I might give some of the reasons. They said if we hand over these services to private companies, it would mean we would have fewer Canadian employees on the ship and less Canadian supplies would be purchased for the ships; and all these advantages would go to the British instead of Canadians.

Mr. GRAY: And the Chairman's statement is that that was some considerable time ago, perhaps before this definite offer was made?

Hon. Mr. MANION: I don't think so.

Hon. Mr. FULLERTON: I have a letter here from Mr. Allan, dated November 5, 1934, in which he says, after dealing with the ships:—

Unless, therefore, the government decides to build new tonnage for this fleet, the only alternative is to withdraw from the service, as certainly the amount of money involved in passing the present steamers through their second No. 1 survey is not warranted. I would recommend, however, that serious consideration be given to new tonnage, either built in Canada or the United Kingdom. If built in Canada, this tonnage would cost between 30 and 40 per cent higher than if purchased in the United Kingdom. But should the government decide to continue to operate this service, to build new tonnage at the present time would be of great benefit to the unemployment relief situation. The additional expenditure over the quotations of British yards could be paid as a subsidy to the builders in Canada from the emergency relief fund. This would mean the employment of approximately 750 men for each vessel in the yards and a similar number employed in the various trades making material for the construction of these vessels. I firmly believe that if this tonnage were laid down at a reasonable cost to the operating company, it would be a remunerative undertaking to the government and would also give the government control of the freight situation.

While it is true that, without doubt, private interests would be glad at the present time to take over the operation of this service as soon as the government fleet was disposed of, a demand would be made for subsidy. In the past a subsidy was paid prior to the inception of the C.G.M.M. service, but the steamers operating under the subsidy did not return to Canada. Their voyage was concluded in either Australia or New Zealand, from which countries they proceed to their home ports in the United Kingdom.

Further, by government operation the employment of masters, engineers and crew is secured to Canada. All repairs, purchases etc. are made in this country, whereas under a subsidy arrangement these moneys would all accrue to Great Britain.

There is still another point to be considered in respect to this matter, and that is if the ships are disposed of it will throw out of employment 400 men, not to mention the shore employees of this company, and the effect it will have on the longshoremen's situation in Montreal, Saint John and Halifax and the shipyards in those ports which depend on the government owned steamers for the basis of their revenue.

That is on November 5.

Hon. Mr. MANION: That is the letter to which I referred.

Mr. DUFF: Did I understand you to say that Mr. Allan recommended the selling of these boats?

The CHAIRMAN: That letter is in favour of the substitution of new tonnage.

Mr. GRAY: Either one or the other had to be done.

The CHAIRMAN: The Dominion of Canada had supplied all the service.

Mr. GRAY: Let me ask this of the Minister or the Chairman: I thought the firm making the offer apparently was a firm quite capable of giving the service.

Mr. MACMILLAN: How do you come to that conclusion?

Hon. Mr. MANION: I think that is quite correct.

Mr. MACMILLAN: Was it a new company?

Hon. Mr. MANION: No, it was not. It was an old standing company. As a matter of fact, before we get away from it, I have no particular objection to tabling the letter of the company and tabling the letter of Mr. Fullerton to me. But I repeat—and the committee can take its own responsibility—there is nothing to hide about this thing. The committee can take its own responsibility. If it is the desire of the committee that I table these letters, I have no particular objection.

Mr. GRAY: If the Minister says that the negotiations are still on, and the offer still being negotiated, I still reiterate that as far as I am concerned, it should have been accepted, from what we know now. That is merely my personal opinion. But if it is not, then I am prepared not to press the question further. But I think from what we know—and I have at least as much right to my opinion as anybody—I would be prepared to say that the recommendation of the Chairman should have been followed by the government.

Mr. MACMILLAN: Do I understand from that letter which Judge Fullerton just read that this would cause the throwing out of employment of 400 Canadian seamen?

Hon. Mr. FULLERTON: Necessarily it would throw a number of men, a number of Canadians, out of employment.

Mr. MACMILLAN: Who would they be replaced by?

Hon. Mr. FULLERTON: They would be replaced probably by Englishmen.

Mr. POWER: They are all Englishmen now.

Hon. Mr. FULLERTON: Yes, most of them.

Mr. POWER: They are all Englishmen on those boats now. I'll bet there is not 10 per cent of them that are Canadian born, on those boats.

Hon. Mr. MANION: I don't know anything about it. Mr. Allan, in that letter which Mr. Fullerton just read, does not quite agree with that.

Sir EUGÈNE Fiset: What I would like to know is this: Was the offer by this famous company made direct to the Chairman of the Board of Trustees or to the Minister?

Hon. Mr. MANION: To the Chairman.

Sir EUGÈNE Fiset: Then Mr. Fullerton wrote to the Minister recommending that the offer be accepted.

Hon. Mr. MANION: He, personally, did.

Sir EUGÈNE Fiset: Why were not further negotiations carried on by the chairman of the Board of Trustees instead of by the government?

The CHAIRMAN: Negotiations, in the first instance, were carried on through the Minister by conversations.

Sir EUGÈNE Fiset: As the chairman of the Board of Trustees the administration of the Merchant Marine as well as of the Canadian National Railways,

it seems to me that if the offer had been made to him after he had written the letter, the Minister should have carried on further negotiations through the chairman of the Board of Trustees.

Hon. Mr. MANION: Possibly, but remember this—

Sir EUGÈNE Fiset: I remember the statement you have made now and in the House of Commons, that the government has nothing to do with the administration of the Canadian National Railways.

Hon. Mr. MANION: Yes. This is steamships.

Sir EUGÈNE Fiset: And also that the same thing applies to the Canadian Government Merchant Marine. In view of the fact that the chairman of the Board of Trustees is a director with regard to the board of the Dominion Merchant Marine, it seems to me that he has power of dismissal as well, without interference.

Hon. Mr. MANION: That is true.

Sir EUGÈNE Fiset: Therefore he is the administrator.

Hon. Mr. MANION: Yes.

Sir EUGÈNE Fiset: It seems to me that negotiations with the company should have been carried on through the Chairman of the Board of Trustees.

Hon. Mr. MANION: Let me answer that as I see it. In regard to the operation of these lines—in regard, for example, to the dismissal or retention of Mr. Allen which has been brought out this afternoon here, I had nothing whatever to do with that. That is entirely in the hands of the directors of the Canadian National Steamships and the Canadian Government Merchant Marine, who have to be appointed by order in council; and we appointed the Canadian National trustees as steamship directors. But any question of policy, as to whether we will keep part of this line or sell that off, is entirely a question of government policy which has to be submitted to the government. Therefore it is a question which has to be decided finally by the government, just as it would be a question of policy for this government to decide to put the Intercolonial back under separate management from the rest of the roads. That is government policy. But the operation of the Intercolonial is entirely in the hands of the management of the Canadian National Railways.

Mr. POWERS: May I point this out. I sort of took that attitude when this Canadian National-Canadian Pacific bill was being discussed. I thought myself, and a great many others, that this bill was going to do away with political interference, divorce the road from politics. I pointed out then that it might divorce the road from petty politics in the way of making appointments, but it would not from the policy of the government; and I was more or less laughed at. I take it now that no matter what the decision of the Board of Trustees may be as to efficient management, if that decision interferes with what I might call the broad policy—I am not talking of the little, petty politics, but of the broad policy—of the government, then the government will step in and interfere.

Hon. Mr. MANION: I don't want my hon. friend to say what the government policy is for me. I will say what I think the government policy is.

Mr. POWER: It is a question of government policy.

Hon. Mr. MANION: It is certainly entirely a question of government policy; the question of our external trade, the question of our trade relations with Australia and New Zealand, the question of the conditions on which we carry on trade, is entirely a question of government policy. And furthermore, let me make this clear: We should not confuse the Canadian National Railways with the Canadian Government Merchant Marine. They are two entirely separate things. The Canadian Government Merchant Marine is run by the trustees, as it happens, at our appointment, as directors of the organization; but it has got nothing whatever to do with the Canadian National Railways.

Mr. POWER: May I ask this, and it is purely for information: I am reading from the Canadian National-Canadian Pacific Bill, Section 3, Subsection (e);—

“National Railways” means the National Company, as owner, operator, manager and otherwise, and its transportation, communication and hotel system, which system shall be deemed to comprise all companies which are elements of the Canadian National Railways as defined in the National Act, the respective undertakings of such companies, the National Company in its capacity as owner, manager or operator, in whole or in part, of any railways, including Canadian Government railways, or of any land, water or air transportation or communication services or hotel services, and the said railways and services, their works and property, and all such works and property as are ancillary.

How does the Canadian Government Merchant Marine come in that?

Hon. Mr. MANION: It does not come in there at all. It is not included in any shape or form.

Mr. POWER: It was not a water transportation system under the bill.

Hon. Mr. MANION: No. Let me explain what I mean by water transportation. The Canadian National Railways has some water transportation. They have some boats that run out on the Pacific coast, that have nothing whatever to do with the government at all. They are part of the Canadian National Railways. They have nothing whatever to do with the Canadian National Steamships or the Canadian Government Merchant Marine. The Canadian National Steamships and the Canadian Government Merchant Marine are separate companies. We appoint by order-in-council, as a rule, the Canadian National trustees as the directors of the steamships. But they are entirely separate and distinct from the railways. Their deficits have been dealt with separately, nothing to do with the railways at all.

The CHAIRMAN: Something like the Hudson Bay Railway.

Mr. POWER: Then I take it that the trustees have not the same authority in dealing with the Canadian Government Merchant Marine as they have in dealing with the railways.

Hon. Mr. MANION: They have the same authority in this way, that they manage them and operate them. We do not intrude at all in the operating. But when it gets down to a question of government policy in regard to their routes, in regard to the services between here and Australia, that is a matter of government policy.

Hon. Mr. EULER: Or even in regard to the sale of ships.

The CHAIRMAN: Sale of the assets of the company.

Hon. Mr. MANION: Of course they cannot sell one of the vessels without submitting it to us for approval.

Mr. POWER: And they are appointed, as I take it, as directors from year to year.

Hon. Mr. MANION: Well, I don't know about from year to year. I think it is done once, and they carry on until their successors are appointed.

Mr. POWER: They are not appointed by statute?

Hon. Mr. MANION: No.

Mr. HANBURY: Successors can be appointed at any time?

Hon. Mr. MANION: Yes.

Mr. POWER: I take it that we are operating this Canadian Government Merchant Marine service not in order to derive a profit, but in order that we may make it fit in with the Department of Trade and Commerce, for instance, or other branches of the government?

Hon. Mr. MANION: In a general way, that is more or less correct. That would have a bearing on the question.

Mr. POWER: It has more than a bearing; because I understood from the Minister the reason why he did not sell these ships or did not favour the sale of these ships, which otherwise would have been a good thing, is that we have certain trade arrangements with Australia which we want to carry out.

Hon. Mr. MANION: Partly that, but the most important reason is that the people who made the offer to me did not make a definite offer.

Mr. POWER: If that was not in the Minister's mind, he would not care.

Hon. Mr. MANION: Perhaps that is right.

Mr. POWER: What is in the Minister's mind is that he wants to carry out those trade arrangements with Australia.

Hon. Mr. MANION: That has its influence.

Mr. POWER: If he was looking at it purely from the standpoint of economic administration of these ships, he would say, "Yes, sell them."

Hon. Mr. MANION: I think so.

Mr. POWER: We all agree on that.

Hon. Mr. MANION: If there was no trade necessity mixed up in it.

Mr. GRAY: Does the Minister ever expect to be able to sell to a private corporation, with a definite time in which they must operate a service between Canada and New Zealand? If he does, we will have this competition, and we may as well get into the game and build new ships; because the Minister will not suggest that any private corporation, if they find the service losing money, will not get out of that service.

Hon. Mr. MANION: Let me show you how wrong you can be, with all your assurance.

Mr. GRAY: It is mutual.

Hon. Mr. MANION: This group that made this offer was in my office last week, and they left my office and were going to submit to us a more definite proposition within a few days; and they said they would endeavour—

Mr. GRAY: With respect to the time?

Hon. Mr. MANION: Certainly; that was my need. If these people had come to me and said that they would not only take over our boats, but that they would carry this out for some definite time, I think I would have recommended to the government to close out the deal at once. But when they came to me and made the offer they made, which might be disregarded at the end of three months or a month for that matter, as to which they might say, "We will not carry along this service at all between Canada, Australia and New Zealand, unless you pay us \$1,000,000, \$2,000,000 or \$3,000,000," since we have very important trade relations with Australia and New Zealand, I could not recommend it. That is the whole answer. I do not understand any of you gentlemen taking a view to the contrary.

Mr. DUFF: How could you bind them down?

Hon. Mr. MANION: They are responsible people, they are big people.

Mr. GRAY: Why bind them?

The CHAIRMAN: Gentlemen, we are talking about—

Hon. Mr. MANION: Let me answer that question.

Mr. DUFF: Well, what would you do if they didn't want to be bound?

Hon. Mr. MANION: If they made a contract with us for, say, five or six years; they are responsible companies—they are outstanding shipping companies—surely my honourable friend down there does not suggest that they would break

their contract, or that we would not have any redress in such a case. These people are operating a service to Europe and to other parts of the world at the present time.

Mr. DUFF: Things might turn up in the course of 2 or 3 years so that they might not be able to fulfil their contract.

The CHAIRMAN: Gentlemen, we are on section 294, the Canadian Government Marine, Limited. The discussion is as to the payment of \$45,000 to be provided, and Mr. Gray introduced the subject of the suggested sale of the fleet. That has been gone into very fully, and the Minister says it is still under negotiation. I think probably there is no further information they want on that then, is there? I mean, we have got to get along; if there is anything we ought to know, or that you think it is wise we should discuss, well and good; otherwise we might dispose of this item.

Mr. MACMILLAN: Carried.

Mr. GRAY: Oh, no; my hon. friend from Saskatoon should not say carried.

The CHAIRMAN: I just want to say this; I do not think there is much more to be said—unless you have a suggestion as to what we should discuss.

Mr. GRAY: I am quite prepared to take the word of the Minister.

Mr. BEAUBIEN: Do I understand that your answer to the question, Mr. Fullerton, is that Mr. Allan was dismissed for unsatisfactory services.

Hon. Mr. FULLERTON: I said, his services were unsatisfactory to the management.

Mr. DUFF: Might I ask if the docking of a ship in New York was not the reason for his resignation?

Hon. Mr. FULLERTON: No. The fact that he docked his ship in New York alone had nothing to do with it.

Mr. DUFF: Did he resign before that time?

Hon. Mr. FULLERTON: No, he resigned afterwards.

Mr. BEAUBIEN: How long was it after you wrote the letter which you have just read, the letter in regard to the sale of these boats?

The CHAIRMAN: What is the date of his resignation?

Hon. Mr. FULLERTON: About two weeks ago.

Hon. Mr. MANION: His letter was dated in November.

Mr. BEAUBIEN: What I mean to say is, what was said in that letter had nothing to do with his unsatisfactory services.

Hon. Mr. FULLERTON: Oh, no, no.

Mr. HANBURY: Mr. Chairman, I gather from what Hon. Dr. Manion said that there was approximately a value of about half a million dollars for all of these vessels.

Hon. Mr. MANION: That is right.

Mr. HANBURY: But I notice in the balance sheet of the Merchant Marine that they show these vessels valued at nearly \$20,000,000.

The CHAIRMAN: What page are you looking at?

Mr. HANBURY: That is on page 4.

Hon. Mr. MANION: That is the cost, Mr. Hanbury.

The CHAIRMAN: That is the book cost.

Mr. HANBURY: That may be the cost, but certain provision has been made in the past for depreciation.

The CHAIRMAN: Now, Mr. Hanbury, will you look at the next page; there is a charge against that of accrued depreciation of nearly \$10,000,000.

Mr. HANBURY: The point I am trying to establish is, what has been the total cost of these vessels to the people of Canada since the inception of the company.

Hon. Mr. MANION: What page is that, Mr. Hanbury?

Mr. HANBURY: Page 4; what I want to get at is the total cost of these ships to the Canadian people since the inception of the company—or the total loss—valuing the vessels remaining at \$500,000.

The CHAIRMAN: It shows a depreciation charge of nearly \$10,000,000.

Hon. Mr. FULLERTON: Putting the value of these ships at \$880,000, the total loss to date would be \$82,101,000.

Mr. DUFF: That would be nearly \$83,000,000.

The CHAIRMAN: On how many tons is that?

Hon. Mr. FULLERTON: At \$10 a ton that would be \$885,000.

Hon. Mr. EULER: Is that taken into account in these discussions?

Mr. HANBURY: It shows a total loss of \$80,000,000, over a period of how many years?

Hon. Mr. FULLERTON: From the beginning, about 1920.

Hon. Mr. MANION: From 1919 and 1920.

Mr. HANBURY: I am assuming from this report that the loss of 1933 was approximately \$18,000; as shown on page 7; and that the loss of 1934 was approximately \$127,000.

Hon. Mr. FULLERTON: That is correct.

Mr. HANBURY: And that the loss this year is approximately \$45,000.

Mr. COOPER: That is apart altogether from depreciation?

Mr. HANBURY: I understand that is operating deficit.

The CHAIRMAN: Well, that is the information you wanted. Did you want something, Mr. Euler?

Hon. Mr. EULER: It is just a passing thought in my mind; I wonder whether we could get the information. I am wondering if we could get the amount indicated as their value for these boats. What occurs to me is, would anybody want to buy them? If they bought them I suppose they would be bought for the purpose of making money; I was wondering whether they are worth a half a million dollars.

Hon. Mr. FULLERTON: I think probably whoever buys these boats will junk them and build fast boats.

Hon. Mr. EULER: Just to get them out of the way.

Hon. Mr. FULLERTON: It is just a nuisance value, that is all.

Hon. Mr. MANION: They may have real value in some foreign country, in certain sections of the world; that is true of some that have been sold during the past two or three years, but quite a few of these boats have been sold and broken up for junk.

Hon. Mr. EULER: The Japs got some of them didn't they?

Hon. Mr. MANION: Not directly.

Mr. POWER: What was the price obtained for these boats up to the present?

Mr. COOPER: It varies considerably.

Mr. POWER: I don't want it in detail, just in a general way.

Hon. Mr. FULLERTON: There were 25 vessels sold prior to 1930, aggregating in tonnage 98,735 at an aggregate sale price of \$1,608,526, an average of

\$16.29 per ton. Since 1930 up to date there have been sold 22 vessels with an aggregate tonnage of 148,878, and an aggregate sales price of \$411,410; or an average per ton of \$2.76.

Mr. POWER: What would this make it per ton?

Hon. Mr. FULLERTON: That would make it \$4.74 per ton.

Mr. POWER: That is just double what we have been getting up to the present.

Hon. Mr. FULLERTON: There was an average of \$2.76 per ton when we sold ships in 1930, and since. From 1930 to date there were 22 disposed of having an aggregate tonnage of 148,878; and that is \$2.76 per ton.

Hon. Mr. MANION: Just a moment now; your figures are probably correct, but according to the figure I have here on page 9 of the report, 10 vessels are shown with an aggregate tonnage of 88,579 tons; if you sold them for \$500,000 odd it does not work out at \$2.76 per ton; it works out at \$6 per ton.

Mr. POWER: He said \$4 something.

Hon. Mr. MANION: Later he said, \$2 something didn't he?

Mr. POWER: That was for the other boats.

Mr. CANTLEY: How much did you get for the *Pioneer* shown on page 6.

Hon. Mr. FULLERTON: \$10,000.

Mr. POWER: What was her tonnage?

Hon. Mr. FULLERTON: 8,408.

Mr. POWER: Then, for the last boat sold we got \$1.25 a ton.

Hon. Mr. FULLERTON: I did not think we had sold any as low as that.

Mr. POWER: What was obtained for the *Pioneer*?

Hon. Mr. FULLERTON: The price realized was \$10,000; she was a ship of 8,408 tons.

Mr. POWER: And the last vessel sold prior to this was in 1933—am I right in that?

Hon. Mr. FULLERTON: Yes.

Mr. POWER: And she was sold in 1933 for approximately \$10,000; she was an 8,000 ton vessel, therefore we received for her about \$1.25; and the offer for the whole lot was about \$4.75 per ton.

Hon. Mr. FULLERTON: The average was \$4.74.

Mr. LABELLE: At any rate, the *Pioneer* was only scrap value. She had been laid up at the wharf in Montreal for years. We sold some for much more than that. The *Prospector* was sold for \$35,000 in 1933, and she was an 8,000 ton ship. The price obtained depends on the condition of the ship.

Mr. DUFF: Mr. Chairman, if I may be allowed to answer hon. Mr. Euler's question as to whether a private company would take over these boats and operate them and hope to make a profit; perhaps one of the reasons is that the cost of operating these 9 ships last year, for management and so on was \$57,000. A private company in my opinion would operate them for at least a quarter of that amount.

Hon. Mr. MANION: I do not think they intended to operate these ships, according to the statement they made to me; they wanted to buy the ships and get them out of the way.

Mr. DUFF: Private management would operate these ships at a much smaller cost than is the case with the Canadian Government Merchant Marine. I notice here that management and office salaries are over \$42,000 for the 9 vessels. My opinion, and I have expressed it at other sittings of this committee,

is that this cost is ridiculous; that 9 vessels making a total of 24 voyages should cost the Canadian Government Merchant Marine \$57,000—there is something there.

Hon. Mr. MANION: And, might I add, they have made very marked economies in the last two or three years without which conditions would have been very much worse.

Mr. HANBURY: I would like if I might to get information from the officials as to the value of the commodities transported during the past year—if that information is available.

The CHAIRMAN: That can be got?

Mr. HANBURY: The point that I have in mind in connection with that is that it is absolutely contrary perhaps to many observations.

Hon. Mr. FULLERTON: You mean the value of the commodities, or the amount of freight?

Mr. HANBURY: The value of the commodities. The point that I wish to make in connection with that, Mr. Chairman, is this; we have absorbed the whole of the loss on these 9 or 10 vessels to date until they represent a value of only half a million dollars. That is possibly less than what we could get from somebody else for them; and it is going to cost us \$45,000 to operate them in a competitive service which will enable Canadian people to market their products in the other parts of the world, and to purchase the products of Australia, New Zealand and other countries. Having absorbed our losses, if we can maintain these boats in service at a cost of around \$45,000 a year, it might be a well advised policy on behalf of the Canadian people to continue them in service.

Hon. Mr. FULLERTON: Of course, Mr. Hanbury, you must remember this; if this service is to continue you must build new ships. At the present time our boats are slow, old tonnage that is out of date. At this very moment there is a service advertised by the American government which is to sail between Montreal and Australia and New Zealand—to come on I think next month if I am not mistaken.

Mr. POWER: Backed by the American government?

Hon. Mr. FULLERTON: Yes. We can't touch their fast motor boats, and we can't begin to compete with this competition; it is out of the question.

Mr. HANBURY: But the fact remains, Judge Fullerton, that in meeting this competition you have your cost reduced to \$45,000 a year.

Hon. Mr. FULLERTON: But we will not be able to compete with this new service, which is practically direct between Canada and Australia and New Zealand. They propose to put on a direct service right from Montreal to New Zealand in direct competition with us, and that is going on.

Mr. BEAUBIEN: Can you not compete?

Hon. Mr. FULLERTON: We cannot begin to compete.

Mr. BEAUBIEN: You suggest that your loss instead of being \$45,000 would be infinitely more?

Hon. Mr. FULLERTON: If they put on these boats we do not know what the loss would be.

Hon. Mr. MANION: May I say for the information of the committee that the reason we have begun to negotiate further was to try to make these people give us a definite offer.

Mr. POWER: All right. It would be a good foundation for a sale particularly if they know that in two years you are not going to have the service.

Hon. Mr. MANION: Suppose, when we are re-elected, we choose to build new ships?

Mr. POWER: If you do not spend six million you will not have the service at all.

Mr. HANBURY: Even you, after your re-election, if it were possible, will not have the nerve to ask for that much money.

Hon. Mr. MANION: I have not thought of doing it.

Mr. HANBURY: Have you any thought of being re-elected?

Mr. DUFF: Hope springs eternal in the human breast.

Sir EUGÈNE Fiset: May I ask the chairman one question: how many ships were sold since the board of directors took office?

Hon. Mr. FULLERTON: One.

Mr. LABELLE: One was sold before but the sale was completed in 1934.

Sir EUGÈNE Fiset: Was the sale directed by the trustees without consultation with the Department of Railways?

Hon. Mr. FULLERTON: No. We cannot do that.

Sir EUGÈNE Fiset: Do you need an order in council to dispose of any one of these ships?

Hon. Mr. FULLERTON: Absolutely. We must have it.

Mr. BEAUBIEN: I would like to ask Dr. Manion a question. In view of the fact that the chairman of the board of trustees has told us that there is a service that runs from Montreal to New Zealand and Australia which is a much faster service than these boats can give, would not your reason for negotiating a contract with these people be much stronger than when you got the first offer?

Hon. Mr. MANION: Possibly. Of course, we could not foresee that there was going to be some other group come in and carry on the service. As a matter of fact it is not a service, it is a trip or two. It may not be a service at all. They may put on an odd trip and then turn away altogether; but naturally if they put on a trip which is twelve days faster than ours they will get some of our traffic—there is no doubt about that—even if it is an odd trip. They have not advertised a service; they have said, “we are going to run a ship leaving Australia on the 15th of April.”

Mr. POWER: Who said that?

Mr. LABELLE: An American line.

Mr. POWER: I thought possibly it was the American Government Shipping Board.

Hon. Mr. MANION: Mr. Fullerton said that, but I hardly think it is correct.

Hon. Mr. FULLERTON: That is hardly correct.

Mr. SMART: It is the Pioneer Steamship company.

Hon. Mr. MANION: The American Pioneer line operated for the United States Shipping Board by the Roosevelt Steamship Company Incorporated.

Mr. POWER: It is an American government concern, is it not? What is the American Shipping Board? It is operated for the American Shipping Board, is not that what you said?

Mr. SMART: That is what the heading says.

Mr. POWER: Is the American Shipping Board the American government?

Mr. SMART: No, I think it is a separate board under their shipping act, that has certain control.

Mr. POWER: Is the *Pioneer* by any chance our *Pioneer* that we sold? Is it?

Hon. Mr. MANION: You are too funny.

Mr. POWER: Perhaps they have speeded her up or something.

The CHAIRMAN: Mr. Duff, you had a question to ask.

Mr. DUFF: I understand that the vote for the Canadian National Steamships is passed. I am sorry I was not here. I would like to ask the trustees if they have had any complaints from passengers going from Canada to Bermuda with regard to paying a head tax when they arrive at Bermuda, and whether they have done anything about it?

Hon. Mr. FULLERTON: We have had no complaint.

Mr. DUFF: I may tell the trustees that there is a good deal of complaint that when passengers arrive at Bermuda they have to pay a head tax of \$10 a head. Now, passengers coming into this country from Bermuda pay nothing. It seems to me that negotiations should be carried on either by the Canadian National steamships or the trustees or the government to see that Canadian passengers landing at Bermuda should not have to pay this head tax.

Hon. Mr. FULLERTON: I knew they had a head tax, but we have heard no complaints.

Hon. Mr. MANION: You will hear it when you are landing in Bermuda.

Mr. DUFF: Yes.

Hon. Mr. FULLERTON: Speaking about these American ships, I think about 60 per cent of our imports are landed at New York and Boston—wool and that sort of thing.

Mr. BEAUBIEN: From Australia and New Zealand?

Hon. Mr. FULLERTON: Yes. We are afraid that those American boats are getting a lot of that traffic.

Mr. POWER: 60 per cent of the imports?

Hon. Mr. FULLERTON: From Australia. I am not sure of the exact amount.

Hon. Mr. MANION: Not imports into Canada.

Hon. Mr. FULLERTON: No. Carried in our bottoms to the United States to New York and Boston.

Mr. BEAUBIEN: Boston is the big wool market in the United States.

Hon. Mr. FULLERTON: Yes. Practically all our wool is landed in Boston, I understand.

Mr. CANTLEY: My objection in regard to spending \$45,000 a year is that the people who get the greatest advantage from the expenditure are the automobile people who are enjoying the protection of over 50 per cent to-day and for whom I have no sympathy at all. A great part of the traffic down to Australia, I think, is in automobiles.

Hon. Mr. MANION: I just want to keep the record straight. Our paper exports to Australia in 1934 were two and a half times as large as our automobile exports. Our automobile exports ran to 17,890 tons.

Mr. CANTLEY: That is not dollars.

Hon. Mr. MANION: The tonnage of newsprint was 41,623.

Mr. POWER: What was it in dollars?

Hon. Mr. FULLERTON: 50,256 tons.

Mr. CANTLEY: Newsprint has a comparatively low cost per ton while with regard to automobiles it is highest.

Hon. Mr. MANION: For the sake of giving the information to the committee may I read the list of goods that we shipped to Australia in 1934:—

	tons
Agricultural implements.. . . .	259
Autos.. . . .	17,890
Asbestos.. . . .	757
Building products.. . . .	813
Cement.. . . .	1,312
Canned goods.. . . .	941
Electrical goods.. . . .	139
Carbide.. . . .	15
Lime and plaster.. . . .	502
Newsprint.. . . .	41,623
Other paper.. . . .	1,228
Pipe.. . . .	1,103
Rubber goods.. . . .	296
Salt.. . . .	220
Wire, iron and steel.. . . .	36
General.. . . .	4,491

Mr. POWER: What is the value?

Hon. Mr. MANION: I have not the value here.

Mr. HANBURY: Have you the ports from which these sailings were made?

Hon. Mr. MANION: That is for the year 1934.

Mr. HANBURY: Twenty-four sailings.

Hon. Mr. FULLERTON: We have no values.

Mr. HANBURY: From what ports were those sailings made?

Hon. Mr. MANION: I presume all the sailings are made from Halifax, Saint John or Montreal.

Hon. Mr. FULLERTON: Yes.

Hon. Mr. MANION: This was by the Canadian Government Merchant Marine.

Mr. FRASER: Are any of our exports shipped via American ports as well as our imports; or do all our exports go via Canadian ports?

Hon. Mr. FULLERTON: The great bulk of them.

Hon. Mr. MANION: There was some complaint about some pulp or paper going via Portland the other day. One of our ships could not carry it and some American line carried it and insisted that they would not come up to our ports.

Mr. POWER: That is a Maritime grievance. Do we have to listen to that?

The CHAIRMAN: Shall this item be carried?

Mr. POWER: We want to listen to that. I would not let that go by.

Carried.

The CHAIRMAN: May I call your attention to this book entitled "Canadian National Railways—analysis of 1934 operations." It is better than the former report and follows the same heading. We are dealing with operating revenues. Is there any question with regard to operating revenues? It is on page 2 of the book under the heading "Railway Operating Revenues." Would it be of use to the committee if we read this as we go along?

Mr. GRAY: Oh, no.

The CHAIRMAN: It is very voluminous.

Mr. BEAUBIEN: I would like to ask the board of trustees if they have made a study on the lowering of the local freight rates on commodities and if they

have come to any conclusion? The reason I ask that from the trustees is that their representatives, such as station agents in these different localities, are really working very hard to get some of this business from the trucks, and my information from them is that if the local freight rate was reduced the railway companies would get a great deal of the traffic and they would not have to run any more trains than they are running to-day.

Hon. Mr. FULLERTON: That, of course, is a matter for the traffic department. We do reduce rates in order to meet truck competition; we frequently do that. We do everything that is possible, but if we kept reducing rates right along we would not have any income at all.

Mr. BEAUBIEN: Mr. Fullerton, have you made any substantial reductions in local freight rates, say, within a radius of 100 miles from the city for, say, farm products and things of that description—fowls and that sort of thing?

Hon. Mr. FULLERTON: We have made reductions in rates on lumber, canned goods, rice and import traffic from the Orient, from British Columbia to the eastern Canadian destinations; we have made reductions in rates on canned goods and iron and steel articles from eastern Canadian producing points to British Columbia; and we have made reductions in minimum weights on live stock between points on the central and western regions, and on eggs, fertilizer, furniture, lime and plaster between points on the central region. Now, those are reductions.

Mr. BEAUBIEN: I think those reductions you have made are on long hauls.

Hon. Mr. FULLERTON: Mostly.

Mr. HANBURY: Mostly competitive reductions.

Mr. BEAUBIEN: That is not the point I was trying to make. I know that in the district where I live in connection with a good deal of our produce all through that district, a representative of a railroad company told me that if the local freight rate, say, to Winnipeg, on those commodities was lowered they could get a good deal of the traffic and the railway companies would not have to increase its train service.

Hon. Mr. FULLERTON: I would not be very hopeful for that, for this reason that we find when we reduce rates to meet truck competition the truckman always lowers his rates.

Mr. BEAUBIEN: Let me give you an instance in passenger rates. Take from St. Jean where I live to Winnipeg your fare was \$1.60. Now, that fare was reduced on the Northern Pacific and the Great Northern to 80 cents, and I will say this, and I know whereof I speak, that the passenger traffic from my point all along that Emerson branch to Winnipeg on the railroads has increased and the traffic on the bus has decreased. I wonder if that would not apply to commodities as well as passengers?

Hon. Mr. FULLERTON: No, we have had quite a lot of experience with that. We have reduced rates. We have gone to shippers and said, "Here, you are carrying merchandise, you are carrying traffic at a certain rate, or having it carried by bus. Suppose we give you the same rate will you give us the traffic?" He says, "Yes." We go to work and file a rate which we have to keep for 30 days, and the first thing we know we find the trucker has lowered his rate and the traffic goes to him while we must keep our rate for 30 days for all that traffic. That has happened again and again.

Mr. BEAUBIEN: Have you ever thought of giving the same service that the trucks are giving by delivering the goods?

Hon. Mr. FULLERTON: We do. Mr. Hungerford dealt with that this morning.

Mr. BEAUBIEN: All right, it will be on the record.

Mr. FRASER: Have you any idea what the amount of those reductions you have just indicated have cost the Canadian National in the way of revenue?

Hon. Mr. FULLERTON: It has cost them plenty; I cannot tell you the exact figure without working it out.

Mr. BEAUBIEN: Have there been increases in the revenues from that policy?

Hon. Mr. FULLERTON: Oh yes, undoubtedly. It is our object to get traffic; that is our only reason.

Mr. BEAUBIEN: The increase in the revenues you would get would offset a great deal of the losses?

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: This has been done to meet the American competition?

Hon. Mr. FULLERTON: Mostly and chiefly.

Sir EUGÈNE Fiset: Mr. Fullerton, I think some time ago a petition was addressed to the provincial government of Quebec, particularly the Department of Agriculture and to the officials of the Canadian National Railway with a view to reducing the freight rate on potatoes, not only for the province of Quebec but I think also from the Maritime provinces. Quebec was asked to share in the matter. May I ask if this petition has been received, and if consideration is being given to it?

Hon. Mr. FULLERTON: I cannot answer that offhand. I should have to look it up because we receive a good many petitions asking for reduction in freight rates, dozens of them.

Sir EUGÈNE Fiset: What I am anxious to know is this—

Hon. Mr. FULLERTON: In fact we sometimes are asked to carry goods free.

Sir EUGÈNE Fiset: Yes, I know that; but I am anxious to know if such a petition is being received by the trustees of the Canadian National Railways and is it necessary either for the province or the board of trustees to make application to the railway board, with a view to having those rates fixed, or have you the authority?

Hon. Mr. FULLERTON: With a view to reducing rates?

Sir EUGÈNE Fiset: Yes.

Hon. Mr. FULLERTON: We would have to file new tariffs. We would have no difficulty in filing new tariffs if we approved of lower tariffs.

Sir EUGÈNE Fiset: I do not suppose you can tell me if the zones which were established a few years ago as far as the Maritime provinces are concerned, to appoint east of Rivière du Loup to Fort William, are still maintained, and if the rates that obtained at that time are still in effect.

Hon. Mr. FULLERTON: I could not tell you offhand, for our traffic department naturally looks after the question of rates. The question of rates is an anomalous one and necessarily our experts would look after that question. If an application comes in for reduction of rates, we do not deal with it; we hand it over to the traffic department to deal with it.

Sir EUGÈNE Fiset: The only reason I am asking is this—I do not suppose you would remember it, but I think Mr. Hungerford will remember that in 1924 and 1925 a deputation composed of members of the House of Commons—both parties—met the railway commissioners and certain zones as far as eastern Canada was concerned, were fixed, one of those zones was fixed east of Rivière du Loup, as far as the Maritime provinces and Quebec were concerned. And of course we are anxious to know if these zones have been maintained. If you have not got that information now, I should be glad to receive it some other time.

The CHAIRMAN: That would be obtained for you.

Mr. BEAUBIEN: May I ask you another question that is local in its character? Where I live a terrible accident happened not very long ago on your

railway crossing on the Emerson route. Two people were killed and six injured. Have you made any investigation about the affair, or does it come under your jurisdiction?

Hon. Mr. FULLERTON: We investigate every accident, of course.

Hon. Mr. MANION: It is exactly the same as if it were a private company.

Mr. BEAUBIEN: In regard to getting a subway, is that done by the Canadian National or does it come under the—

Hon. Mr. MANION: Board of Railway Commissioners.

The CHAIRMAN: There is a motion sometimes, but generally an application by a municipality.

Hon. Mr. FULLERTON: The difficulty with subways is that the municipalities have no money at present and there have been very few applications for subways.

The CHAIRMAN: The board passes a very substantial percentage on to the municipalities. We are now on page 2 and we start with the paragraph which shows an increase in the railway operating revenues, and then they cite the net railway operating revenues and they show how it compares with the percentage of increase of the American roads.

Sir EUGENE Fiset: May I suggest to the Chairman that this is a very long way to go on with this? I think it would simplify matters if you took the report as it stands. Take the operating revenues. We have the details of it under the headings, and if you do it in that way it seems to me you would save a great deal of discussion.

Hon. Mr. FULLERTON: We prepared this because we thought it would be simpler for the committee. The explanations are here; that is the reason we specially prepared it. It is more or less the same as the other.

Mr. GRAY: With explanations.

Mr. MACMILLAN: I should like to ask Mr. Fullerton on what principle the railway operates in places like the province of Saskatchewan where you have great drought conditions and the railways are asked to cut their rates on food fodder and all that sort of thing, which must show a great loss to the railway. On what principle do you arrive at such a conclusion that the rates should be cut?

Mr. HANBURY: National necessity.

Hon. Mr. FULLERTON: That is about it.

Mr. MACMILLAN: Should that loss be charged to the railway?

Hon. Mr. FULLERTON: Well, we bear the loss. People do not give us much credit for it, but we bear the loss in many cases to help out different parts of the country.

Mr. MACMILLAN: Both railways.

Hon. Mr. FULLERTON: Both railways do. No doubt about that.

Mr. MACMILLAN: While the railways are losing money, you are asked to make those great concessions and you do it at a further sacrifice of revenue?

Hon. Mr. FULLERTON: That is perfectly true.

Mr. MACMILLAN: Well then there is no guiding principle?

Hon. Mr. FULLERTON: None.

The CHAIRMAN: If you will turn to the maroon book at page 16 you will find the operating revenue, Sir Eugène Fiset, and then a running analysis.

Sir EUGENE Fiset: I know. That is for the information of the members as they read it.

The CHAIRMAN: Here you have compared 1924 and 1933. Are there any questions to ask in connection with any of those items that we have not already asked?

Mr. GRAY: I was going to ask a question with respect to the passenger revenues, Mr. Fullerton. Your week-end excursions have been successful, have they not?

Hon. Mr. FULLERTON: Undoubtedly, yes.

Mr. GRAY: Has your board given consideration or co-operated with the other railroad in regard to the extending of that cheap rate? In fact, years ago, as I recall it, they issued a book of tickets at a very cheap rate. I have forgotten whether it was one or two cents a mile, but you could ride any time by using those tickets. It seems to me, in discussing this with the public, if you could extend it—you have to run those trains in any event—to include time greater than week-ends, you would benefit. Everybody now saves up and looks to see when the next bargain day is. It seemed to me that this is an avenue that could be extended. Maybe there is some reason why it cannot, but I should like to know why.

Hon. Mr. FULLERTON: This is all worked out in connection with the Canadian Pacific railway. We work together, and we have given every study to this subject with the idea of increasing revenue, but I have not heard any suggestion of that.

Mr. GRAY: Do you know any reason why it should not be extended?

Hon. Mr. FULLERTON: Except this; everybody would travel on the one cent a mile; we would lose the bulk of our revenue; that is our only explanation.

Mr. GRAY: Your bargains have increased your traffic.

Hon. Mr. FULLERTON: Quite so. Of course they are of a special character.

Hon. Mr. EULER: They have increased your revenue.

Hon. Mr. FULLERTON: Yes, they have increased our revenues undoubtedly.

Hon. Mr. MANION: An excursion runs at certain times and uses a special kind of car, and so on.

The CHAIRMAN: Would Mr. Gray's proposition ultimately reduce the general rate?

Hon. Mr. FULLERTON: Reduce—

The CHAIRMAN: The usual rate.

Hon. Mr. FULLERTON: Oh, yes.

Mr. GRAY: I presume it would, Mr. Chairman, but there must have been a reason for giving it up. Do you recall, Mr. Hungerford, when the system of selling these books was in vogue?

Mr. HUNGERFORD: To some extent, but I think it was given up as a result of war disturbance; so far as I can recall those are the facts.

Mr. GRAY: Do you feel it would not increase revenue to adopt it now?

Mr. HUNGERFORD: It would be very doubtful. It would increase the patronage but through the reduced rate the net revenue would not be increased.

Mr. GRAY: By increasing the patronage and getting the people back to the railroads, when these people became familiar as using the railways as passengers, would not there be a tendency for these same people to use the railroads for freight and express?

Mr. HUNGERFORD: Well I have heard that argued, but I am not sure it would work that way.

Hon. Mr. FULLERTON: That is the stock argument in connection with applications for the reduction of rates. They say, reduce your rates and you will get so much more traffic that you will more than make up for any loss, but it never works out that way.

Mr. HANBURY: I am going to suggest in this year particularly, there should be a reduction in the passenger rate, particularly to those members of parliament who won't have their passes next year.

Hon. Mr. FULLERTON: That sounds reasonable.

The CHAIRMAN: The two of us up here do not need to bother about that. We have now got into hotels. What about hotels?

Mr. HANBURY: You are referring to page 4?

The CHAIRMAN: Page 16 and page 2.

Mr. HANBURY: I notice express and telegraph here. Last year there was a suggestion made that the express and telegram services should be amalgamated. Has the Chairman of the board any statement to make in connection with the matter?

Hon. Mr. FULLERTON: There is a reference to that in our report at the bottom of page 7:—

Studies have also been in progress with regard to the possibility of consolidating the telegraph properties and the express departments of the two systems. Legal difficulties have developed in attempting to work out a plan of consolidation of the telegraph properties. The chief legal difficulty is in connection with the lease hold of the Montreal Telegraph Company's lines, which expires in 1978. As regards the consolidation of the express departments of the two companies, the Canadian National is by no means convinced that maximum economy and convenience to the public would result from such action. Studies are presently in hand to determine whether an internal consolidation of the express and L.C.L. freight facilities would not yield greater economy and present a more effective front to highway competition than a consolidation of the express departments of the two properties.

Mr. FRASER: What does that mean, "—whether an internal consolidation of the express and L.C.L. freight facilities—"

The CHAIRMAN: Smaller lots than carload lots.

Mr. HANBURY: It is not the purpose to go ahead with the consolidation?

The CHAIRMAN: Less than carload lots.

Hon. Mr. FULLERTON: That is being studied now.

Mr. FRASER: How are you going to consolidate the express and L.C.L. departments?

The CHAIRMAN: Any amount of express is practically freight. To the layman—

Hon. Mr. FULLERTON: We are carrying a great deal of freight to-day at L.C.L. rates practically by express. We are carrying by express goods which ordinarily would go L.C.L.

Mr. BEAUBIEN: All over the weight of 300 pounds. Is there not a limit in that way?

Mr. HUNGERFORD: There is a limit, but I do not know what it is.

Mr. BEAUBIEN: I think it is 300 pounds.

The CHAIRMAN: Are there any other items?

Mr. FRASER: Was that to meet competition of the mail order houses? Is that where it comes in?

Hon. Mr. FULLERTON: No, to meet competition of trucks.

Mr. HANBURY: I would be interested to know whether the officials can give us a comparison of the revenue per ton mile with class I railways?

Hon. Mr. FULLERTON: We have it here somewhere.

Mr. FAIRWEATHER: I have it, but it will take a minute to look it up.

The CHAIRMAN: How many express cars do you have on a train? What is the maximum number of express cars on a train, a fast passenger train—three or four?

Mr. HUNGERFORD: It all depends on the train.

The CHAIRMAN: The old idea of one express car has gone long ago, has it not?

Mr. HUNGERFORD: One car is the average. It just depends on the capacity of the train.

The CHAIRMAN: While Mr. Fairweather is looking up that question, is there anything else?

Hon. Mr. EULER: What page is that, Mr. Chairman?

The CHAIRMAN: We are at page 16 of the red book, and you will find on pages 2 and those following an explanation of these items. We were now talking about page 4, and Mr. Hanbury was referring to the item of express cars, about eight lines down on page 4. He has asked a question of Mr. Fairweather. Mr. Fairweather has a book like an insurance agent's book. He turns over all sorts of tables.

Mr. FAIRWEATHER: I know this, that our ton-mile revenue in the last year is very, very slightly lower than the ton-mile revenue in the United States; our passenger-mile revenue is, I think, two-tenths of a cent below that of the United States. But to all intents and purposes the ton-mile revenue in the United States and Canada is the same. There is practically no difference.

Mr. HANBURY: I understood that the traffic density was much greater.

Mr. FAIRWEATHER: Yes, over there, much greater.

Mr. HANBURY: Can you give us a comparison of their traffic density?

Mr. FAIRWEATHER: For the average class I roads of the United States, yes, I think I have that.

Hon. Mr. MANION: If my recollection serves me right—and I think it does—the population of the United States per mile of road is 500, and over here it is 250. Naturally, that would make it much more dense.

Mr. HANBURY: That would have a considerable bearing upon the cost of operating roads in Canada.

Hon. Mr. MANION: And on the traffic density.

Mr. HANBURY: The point I am making is that, with the traffic density you might say adverse to Canada, it would reflect, in my opinion, on the more economic management of the railroads in Canada, in connection with the class I roads.

Mr. FAIRWEATHER: The average density of traffic on class I roads in the United States, that is with gross earnings of \$1,000,000 or over, is about twice that of the average Canadian road.

Mr. HANBURY: In what way is that reflected in your costs?

Sir EUGENE Fiset: A sad reflection.

Mr. HANBURY: Yes. Your costs here show you are operating on a more efficient basis than class I roads in the United States, and yet traffic density is against you.

Mr. HUNGERFORD: Only in some respects.

The CHAIRMAN: Are there any other questions under this heading?

Sir EUGENE Fiset: Under this heading of operating revenue I want to ask a question, because I do not see any other place where it can be asked. I do not wish to discuss it, but I want to get some information. I understand at the

present time, Mr. Fullerton, that the coal for distribution between Levis and Campbellton is carried by water to Levis and then loaded on cars and distributed from Levis to all intermediate points between Levis and Campbellton. I understand that a few years ago some inquiries were made at Rimouski, for one place, with a view to trying to secure necessary wharf accommodation to accumulate the coal there in order to distribute it from Rimouski to different intermediate points between Levis and Campbellton. Last year there was a protest on the part of the railway that the wharf conditions at Rimouski, for the very high tonnage that has been carried in the last two years especially, were getting to be unsafe. I would like to know if the railways have made any report on the subject matter either to the Department of Public Works or to the Railway department, with a view to having the wharf repaired in order to carry the weight of the coal? Of course, this service is getting extremely important at the present time, if you bear in mind that 1,200 carloads were carried from the wharf siding at Rimouski. I would like the matter to be considered, if possible, and some report or request made either to the Minister of Railways, who is always kind to me, or to the Minister of Public Works, on the subject matter.

Hon. Mr. MANION: You saved my life on one occasion.

Sir EUGENE Fiset: I would also like to know if the railway has taken any interest in the project put forward by the Chamber of Commerce of Rimouski, and also by the large companies of pulp and wood manufacturers not only in Rimouski but also the lower St. Lawrence region, with a view of doubling the capacity of the wharf there in order to handle the Atlantic traffic that is taking place. If I understand it correctly, over 90,000 tons of mercantile timber were loaded on the wharf at Rimouski for shipment to England. Wharf facilities are absolutely inadequate, and ships had to remain two, three and four days outside of the harbour, awaiting their turn to load. I understand also that pulpwood is being brought from points 200 and 300 miles from Rimouski in order to be loaded at Rimouski wharf; and of course the siding capacity is extremely low. I think that the local population, and not only the local population but I should say the population of the lower St. Lawrence, want to interest the railway in the subject matter, and ask them to join with the remainder of the population with a view to trying to induce parliament to increase these harbour facilities as soon as possible. May I ask if the matter has been submitted to the management in any way, shape or form?

Hon. Mr. FULLERTON: I have heard nothing of the matter, but I shall make inquiries.

Sir EUGENE Fiset: I suppose it would go to Mr. Appleton, the manager of the Eastern division?

Hon. Mr. FULLERTON: I would imagine so.

Mr. LABELLE: I did not hear anything of that particular question myself.

Sir EUGENE Fiset: I understand the request has been made from the Chamber of Commerce of Rimouski, from the big companies such as Price Brothers, Finlayson,—all these people shipping timber and pulpwood. Of course, what we are anxious to know is if these facilities are provided for and if the necessary wharf facilities are provided, will the Intercolonial give consideration to the establishing of a coaling station at Rimouski for distributing—

Hon. Mr. FULLERTON: Establishing what?

Sir EUGENE Fiset: A coaling station at Rimouski, with a view to distributing upwards to Campbellton and downwards to Levis. The project was suggested a few years ago. As a matter of fact, they unloaded a few shiploads of coal on the Rimouski wharf for that distribution; and the same thing applied also on the railway with respect to artificial manure—what do you call that?

Mr. HUNGERFORD: Fertilizer.

The CHAIRMAN: Sometimes they call it that.

Sir EUGENE Fiset: Fertilizer coming from all points for distribution, at the same time as the coal. I wish you would be kind enough to try to give a little bit of study to it.

Hon. Mr. FULLERTON: I shall make inquiries.

Sir EUGENE Fiset: And give a chance to our local population, if you can do so.

Hon. Mr. FULLERTON: I shall do that.

The CHAIRMAN: Are there any questions on maintenance of way and structures expenses, page 17?

Sir EUGENE Fiset: I hope I was not out of order in discussing what I did.

The CHAIRMAN: No, no; it was very laudable.

Mr. HANBURY: On page 5 of this analysis it refers to the pooling arrangements with the Canadian Pacific Railway. I would like to ask the Chairman whether the pooling arrangements entered into have been satisfactory to the Canadian National Railways?

The CHAIRMAN: Well, I cannot tell you. One of these gentlemen will, I hope. He is trying to think up an answer.

Mr. HANBURY: Probably Judge Fullerton would like to consider his answer?

Hon. Mr. FULLERTON: In a way, they have been satisfactory.

Mr. HANBURY: Does that mean that in a way they have not?

Hon. Mr. FULLERTON: Well, we would have liked very much to have extended the pool.

Mr. HANBURY: Yes? Where?

Hon. Mr. FULLERTON: West of Toronto, for instance.

Mr. HANBURY: West of Toronto?

Hon. Mr. FULLERTON: Yes. When we entered into this pool from Quebec to Toronto, we felt, of course, that later the pool would be extended to the river, the Detroit river.

Hon. Mr. EULER: Through London?

Hon. Mr. FULLERTON: Yes.

Mr. HANBURY: Extended to what?

Hon. Mr. FULLERTON: To the Detroit river. Otherwise it might have been questionable whether we would have entered into the pool or not. But we clearly understood that the study was going on west of Toronto, and that that pool would be arranged. But we have been working on it ever since and we are not very much nearer to it than we were when we started.

Hon. Mr. EULER: If it went through, would it be necessary to complete that new passenger station at London?

Hon. Mr. FULLERTON: I don't know about that.

Hon. Mr. EULER: I said "if" again.

Mr. HANBURY: Can you give any of the reasons why it has not gone through as yet?

Hon. Mr. FULLERTON: Well, of course one difficulty is that the C.P.R. do not want to break their Michigan connection. That is the main reason given. But we are still working on it; we are trying to secure a modified pool. We are trying to allow them to retain their Michigan connection and still pool. We think there is a large amount of saving that could be made, although not as large an amount of saving as though we were pooling completely.

Hon. Mr. EULER: I do not want to embarrass the Chairman, but if the pooling arrangements were made, as apparently you expected, west of Toronto to the river, would it not have been possible or advantageous to have worked out a union station proposition in the city of London?

Hon. Mr. FULLERTON: I am not familiar with London. Mr. Hungerford knows more about that.

Mr. HUNGERFORD: That is quite possible, dependent altogether on the arrangement of the pool.

Hon. Mr. EULER: That will become impossible if that station is completed.

Mr. HUNGERFORD: I beg your pardon?

Hon. Mr. EULER: I say it will become practically impossible if the new station is completed.

Mr. HUNGERFORD: Not necessarily.

Hon. Mr. EULER: You would expect to get the new station?

Mr. HUNGERFORD: Naturally.

Mr. HANBURY: Following up the question of pooling, as I understand the Canadian National-Canadian Pacific bill, it instructed the trustees of the Canadian Pacific Railway to enter into pooling arrangements where they could, where they were economically sound. In other words, the instructions were to amalgamate, although we were distinctly told you were not to do so. Frankly, I think the whole thing is inconsistent.

Mr. HUNGERFORD: Pooling is not amalgamation.

Mr. HANBURY: Well, I mean that is my view of it, and I wish to retain that view, because I believe that is the only practical view you can take of it. Consequently, the thought that is in my mind is has that feature of the Canadian National-Canadian Pacific bill had any effect upon the operation of either of the Canadian railroads?

Hon. Mr. FULLERTON: I do not just follow your question.

Mr. HANBURY: Well, I tried to point out that the Canadian National-Canadian Pacific bill instructed both railroads to enter into pooling arrangements. Very few pooling arrangements have been entered into, so that there has been very little effect given to the purpose of the bill.

Hon. Mr. FULLERTON: In other words, that very little has been accomplished?

Mr. HANBURY: Yes.

Hon. Mr. FULLERTON: Yes, that is perfectly true.

Mr. HANBURY: May I follow it up in this way, that if the Canadian National-Canadian Pacific bill had never been passed, there would have been very little change in the railway situation in Canada?

Hon. Mr. FULLERTON: Well,—

Hon. Mr. MANION: Pooling could have taken place without any bill of any kind.

Hon. Mr. FULLERTON: Oh, yes, we can pool here without any bill.

Hon. Mr. EULER: All you did was not done under that bill.

Hon. Mr. MANION: No. The most of what they did was done before the bill was passed.

Hon. Mr. EULER: There have never been any arbitral tribunals.

Mr. HANBURY: I am trying to place a value on the Canadian National-Canadian Pacific bill; and from any information I have been able to obtain, it is of no value whatsoever.

Hon. Mr. MANION: That is not very complimentary to the trustees.

Mr. HANBURY: I am referring to the bill, not to the trustees.

Hon. Mr. FULLERTON: I would like to say that the trouble is that the ordinary layman—I mean by layman a man who is not a railway man—does not appreciate the immense difficulty of bringing about pooling or any other economy on a railway. There are so many technical things to consider and discuss. For instance, take our duplicate function roads with the C.P.R. Our officers have been working for nearly a year to try to arrange an agreement covering the situation. It is a most technical agreement. I would like you to read it. It covers forty-five pages.

Mr. HANBURY: I am a layman.

Hon. Mr. FULLERTON: I am a layman too. I do not understand a great deal of it. It is very technical and very difficult. Our committees are working all the time, trying to bring these things about. For instance, on that question we have practically arrived at our agreement, and that can go right ahead now.

Mr. FRASER: What pooling arrangements had been entered into prior to 1934?

Hon. Mr. FULLERTON: There is the pooling arrangement between Quebec and Montreal, and the other pool has been extended.

Mr. HUNGERFORD: The pool service between Montreal and Toronto has been extended.

Hon. Mr. MANION: Was not the pooling arrangement between Montreal and Toronto, and between Ottawa and Toronto, in principle carried out before this Bill was put into effect at all?

Mr. HUNGERFORD: Partially so, we have extended it.

Hon. Mr. MANION: In other words, the pooling could have been done without this act.

Hon. Mr. FULLERTON: There is nothing in our act to prevent pooling. Under the Inter-state Commerce Commission Act you have to have permission.

Mr. FRASER: My point was that not much progress was made during the past year.

Hon. Mr. FULLERTON: Not very much in the way of making savings has been effected.

Hon. Mr. EULER: I think last year you reported a saving of about a millions worth because of pooling between Toronto and Ottawa, and between Toronto and Montreal.

Hon. Mr. FULLERTON: That is correct.

Hon. Mr. EULER: How much has been saved by further pooling arrangements within the last year?

Hon. Mr. FULLERTON: I think probably Mr. Fairweather could answer that better than I could.

Mr. FAIRWEATHER: The additional amount is about \$400,000 a year.

Hon. Mr. MANION: Is that for each railway or both?

Mr. FAIRWEATHER: That is the joint saving.

Mr. GRAY: The same ratio of labour would apply as applied last year in respect to those savings?

Mr. FAIRWEATHER: Yes.

Mr. HANBURY: In other words, that is displaced labour on a ratio of—what is it?

Mr. FAIRWEATHER: The direct ratio which would be displaced under these pooling arrangements I imagine would represent—oh, perhaps 50 per cent of the cost.

Hon. Mr. MANION: Of the saving.

Mr. FAIRWEATHER: Of the saving, rather. The balance would represent materials purchased.

Mr. HANBURY: Could you give us some estimate of the number of schemes under consideration by the two railways for pooling arrangements at the present time?

Hon. Mr. FULLERTON: Mr. Fairweather who is in charge of that work could probably give you a more intelligent idea of the situation than I could. I follow it in a general way. Mr. Fairweather knows the details.

Mr. HANBURY: I am not anxious to have publicity given to anything which you do not wish to have; but just in a general statement—if you could give us the information.

Mr. FAIRWEATHER: You mean, on co-operative projects?

Mr. HANBURY: What you are contemplating, or scheming, at the present time.

Mr. FAIRWEATHER: We have several hundreds of these projects and they are in various stages of investigation and proceeding. They range all the way from an extension of the train pooling arrangements to the consolidation of engine houses and terminals, freight sheds, and such things. We have at the present time I suppose 30 or 40 sub-committees that are reporting on different specific projects, and they stretch all over the country. Of course, only the ones that will yield the largest immediate economies, such as passenger train pooling arrangements—they are different from many of the other projects where in order to make any economy effective you have to spend money; and that requires much more careful consideration, because if you make a mistake in a pooling arrangement you can change it, but if you make a mistake on some of these other projects on which you have to spend money, or something of that character, you have no chance of fixing it up, you are stuck for all time with an inefficient operation.

Hon. Mr. EULER: Would you care to say whether there is a real disposition to co-operate on the part of the two railways.

Mr. FAIRWEATHER: I can only speak for the joint co-operative committee, of which I am chairman of the C. N. section, and I would put it this way; I say the same now as I said in giving evidence before the Senate committee. I was asked the same question, and the answer is this; that we sit down and deal with the technical aspects of any given problem. Speaking as engineers and as railway operators we are able to sit down and discuss the subject given us from that point of view—what should be done in ironing out the inter-company complications that arise is quite another matter, and naturally it is somewhat beyond my field. Have I answered your question?

Hon. Mr. EULER: As a matter of general policy, is the spirit of co-operation evident between the two companies?

Mr. FAIRWEATHER: Well, I can only answer, as I say, in that way.

Mr. HANBURY: In other words, you are not quite sure.

Mr. FAIRWEATHER: Well, of course, the thing about it is that naturally each company has certain slants on certain problems; and it is quite one matter to settle the technical aspect of it, and quite another matter to settle and adjust the problems arising out of the different managements. In some things we have very little trouble; for instance, you take a matter like to function of duplicate lines; for the most part the railways sit down and decide which line is the better line to be retained and which line we should ask or make an application to discontinue the service on. On things like that we have our little troubles.

Hon. Mr. EULER: How many miles of duplicated lines have been eliminated?

Mr. FAIRWEATHER: I think altogether—none have been actually eliminated.

Mr. GRAY: In other words, you have not as yet secured the consent of the Board of Railway Commissioners.

Mr. FAIRWEATHER: No; but we have reported on I think 538—about 600 miles; but there are a great many more hundreds of miles that we have under study.

Mr. HANBURY: Mr. Fairweather, could you give an estimate of what further savings there will be when these schemes you are considering are put into effect?

Mr. FAIRWEATHER: I could give you an estimate only.

Mr. HANBURY: Just a rough estimate.

Mr. FAIRWEATHER: I do not know that it would be very informative because it would depend so largely upon traffic conditions.

Hon. Mr. MANION: And on the working out of the proposals.

Mr. FAIRWEATHER: And, on the working out of the proposals, and things of that character. Take for instance the passenger train pooling arrangements; under present conditions you can get economy, for instance in our existing pool of we will say a million dollars a year, something of that character; but if the general passenger traffic increased 50 per cent that economy of course disappears in the cost of duplicate trains.

Mr. HANBURY: Then you would be right back where you started from?

Mr. FAIRWEATHER: Right back where you started.

But when traffic goes up another 50 per cent your economy comes back again—it is just a sort of jig-saw puzzle.

Mr. GRAY: And it would be the same thing when you applied to the Board of Railway Commissioners perhaps with respect to the abandonment of your 538 miles of duplicate functional lines—

Mr. FAIRWEATHER: Again, that depends to some extent on traffic. But at the present level of wages and of materials, and of our present market for scrap materials and things like that, that would represent perhaps a little better than half a million a year. But, you see, one thing about that is this; salvage material that we get from these lines at the present time is of very little value, it would practically cost us as much to pick it up as it is worth.

Mr. HANBURY: Has any general survey been made to give you the ultimate of co-operation of the two railroads?

Mr. FAIRWEATHER: Well, do you mean in general terms?

Mr. HANBURY: I mean between the two railways; what degree of co-operation can you hope for in the long term?

Mr. FAIRWEATHER: No general survey has been made.

Mr. HANBURY: What I am trying to get at is, and I said it before, I look on this co-operation as an amalgamation; and, of course, we have had a great deal of discussion about how much is going to be saved in the form of amalgamation—it is up to \$75,000,000, say—and what I am informed is, and I may be wrongly informed and that is why I am asking this—that if you made effective every operation throughout Canada that you could do economically that the total saving to both railroads would not amount to more than an additional \$10,000,000 over what you are to-day saving.

Mr. FAIRWEATHER: Well, if you want my personal opinion in regard to that—

Mr. HANBURY: That is why I asked whether any general survey had been made.

Mr. FAIRWEATHER: No; I would say no general survey has been made. But I do not mind answering personally your question. Anybody who thinks that at the present level of traffic any large measure of saving, anything in the nature of tens of millions of saving can be made without totally disrupting the service, is making a big mistake. It cannot be done.

Hon. Mr. EULER: Are you talking co-operation or amalgamation?

Mr. FAIRWEATHER: I don't care which.

Hon. Mr. EULER: There is a decided difference.

Mr. HANBURY: Oh, let him talk.

Mr. FAIRWEATHER: I make that statement; it does not matter which way you approach it, from the point of view of amalgamation or co-operation.

Mr. HANBURY: I quite agree.

Mr. FAIRWEATHER: Anybody who thinks that at the present level of traffic and with the present level of wages we can make economies which are measurable in terms of tens of millions of dollars—well, it can't be done; not without destroying the value of the existing services.

Hon. Mr. EULER: Are you making the deliberate statement that there is not more to be saved by amalgamation than by co-operation, such as you have been practising in the last two years.

Mr. FAIRWEATHER: That opens a very wide question.

Hon. Mr. EULER: It is a hard question. I am asking you whether you make that statement.

Mr. FAIRWEATHER: I made the statement, sir, that large economies at our present level of conditions now in effect cannot be measured in tens of millions of dollars by any means. That is sheer nonsense.

Hon. Mr. EULER: I ask you another question: are you saying there is no more economy to be made by amalgamation than by co-operation?

Mr. FAIRWEATHER: Again, sir, (answering that question personally) I think over a period of years that the amount of realizable economy which can be effected by co-operation is fully as great, probably greater than you could achieve from amalgamation.

Hon. Mr. EULER: I think that is absurd, absolutely; just absurd.

Mr. FAIRWEATHER: That is my opinion.

Hon. Mr. MANION: You are very definite, Mr. Fairweather, that even under amalgamation—or call it if you like unification—under either of these you cannot make any savings which could be measured in terms of tens of millions of dollars.

Mr. FAIRWEATHER: You could not, sir, at present levels of traffic.

Hon. Mr. MANION: I wholly agree with that.

Hon. Mr. EULER: You backed up on something else last year, you turned quickly when the minister made you, or at least suggested something to you; you backed up right away.

Hon. Mr. MANION: I don't remember that; you flatter me, Bill.

Hon. Mr. EULER: It is true.

Mr. FAIRWEATHER: May I ask that this be taken off the record. I would like to make an explanation of that.

The CHAIRMAN: Mr. Fairweather desires to make an explanation which will not be noted in the record.

Mr. GRAY: We have had a pretty busy day. I would move that the committee rise and report progress.

The CHAIRMAN: Just before you go, gentlemen; we are about at the end of "Revenues" and we have these other amounts from pages 16, 17, 18 and so on. We can almost say we are through with operating revenues, I think; and we are about ready to start in on the budget.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: What time shall we sit to-morrow?

Mr. HANBURY: We have a caucus in the morning.

Mr. GRAY: Make it 3.30.

Hon. Mr. MANION: If you don't mind, shall we say 3.45; that will give us more time to attend to the question period.

The Committee adjourned at 5.50 p.m. to meet again at 3.45 p.m. Wednesday, April 10, 1935.

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Canada - Railways and Shipping
- Standing Committee - 1935

SESSION 1935

HOUSE OF COMMONS



CAIXE 15
R17

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

WEDNESDAY, APRIL 10, 1935

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. J. E. Labelle, Trustee, Canadian National Railways.
- Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.
- Mr. S. W. Fairweather, Director of Economics, Canadian National Railways.

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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

REPORT TO THE HOUSE

THIRD REPORT

WEDNESDAY, APRIL 10, 1935

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

THIRD REPORT

Complying with an Order of the House dated April 3rd, your Committee has considered Items Nos. 293, 294, 295, 296 and 297 (Canadian National Steamships and Maritime Freight Rates Act) of the Estimates for the fiscal year 1935-1936.

Your Committee approves of the said Estimates and recommends them to the House.

All of which is respectfully submitted,

G. R. GEARY,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 231,
WEDNESDAY, APRIL 10, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 3.45 p.m., the Chairman, Mr. Geary, presiding.

Members present: Messrs. Beaubier, Euler, Fiset, Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Manion, Stewart (*Lethbridge*), Tummon.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance, and Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.

The Committee resumed consideration of the Annual Report of the Canadian National Railway System, Officials of the Railway being examined in connection therewith.

On the item "Additions and Betterments less Retirements," of said Report, Messrs. C. R. McIntosh and P. G. Davies, members for North Battleford and Athabaska, respectively, were granted leave to appear before the Committee and make a statement advocating the construction or completion of certain branch lines.

Following the consideration of the Annual Report, Hon. Mr. Euler referred to the statement of the Hon. Minister of Railways and Canals, appearing in yesterday's evidence, with respect to the recapitalization scheme as proposed by Geo. A. Touche & Co., and moved the following resolution, seconded by Mr. Gray, viz,—

That the report of Touche & Company be referred to the Board of Trustees of the Canadian National Railways for consideration and report, with special reference to the recommendation of Touche & Company for the re-casting of the capital structure of the Canadian National Railways.

It was suggested by Mr. Euler and agreed that Mr. Matthews, of Geo. A. Touche & Company be requested to express his views on the matter at the next sitting of the Committee, the motion being allowed to stand for further consideration at that time.

The Committee then adjourned until 3.45 p.m., on Thursday, April 11.

R. ARSENAULT,
Clerk of the Committee.

Mr. HEAPS: May I ask a question of the Canadian National regarding the equipment, are they short or have they too much?

Hon. Mr. FULLERTON: Mr. Hungerford can answer that question.

Mr. HUNGERFORD: What is the question?

Mr. HEAPS: There is a suggestion of new equipment being purchased from certain concerns who manufacture railway equipment. I should like to know whether the Canadian National Railways is actually short of any equipment in the operating of the railroad?

Mr. HUNGERFORD: We have enough equipment to take care of the traffic requirements.

The CHAIRMAN: Mr. Heaps, that comes under the next account.

Mr. HEAPS: I am asking the question because it arises out of Mr. Gray's question; I did not get the answer, I did not hear it.

Mr. HUNGERFORD: I say we have in repair enough equipment to take care of traffic requirements.

Mr. HEAPS: You have enough?

Mr. HUNGERFORD: We have kept in repair sufficient to do that.

Mr. HEAPS: You have enough equipment?

Mr. HUNGERFORD: It all depends, when we say we have sufficient equipment. There are peak periods during which we are short of certain types of equipment for a short period of time.

Mr. HANBURY: Would you make that statement again?

Mr. HEAPS: Speak a little louder.

Mr. HUNGERFORD: I say, in general we have lots of equipment, surplus of equipment, but again there are peak periods and it is during that time that all railroads may be short of a particular class of equipment for a short period of time.

Mr. HANBURY: How do you prepare for that shortage?

Mr. HUNGERFORD: We borrow from somebody who has it to spare. We all borrow and lend equipment as between railroads.

Mr. TUMMON: That is the practice of all railroads?

Mr. HUNGERFORD: Yes, sir.

Mr. HANBURY: You never have any difficulty in taking care of the peak in that way?

Mr. HUNGERFORD: No, not for many years.

Hon. Mr. EULER: There is an item that appears on page 17 under the heading of maintenance of way and structures which is quite small, \$46,601.76, and it says it applies to United States lines only. You have a similar depreciation of \$1,354,646.18 for maintenance of equipment expenses on the next page, which refers only to the United States lines. I suppose that is in accordance with the practice you are obliged to follow in the United States. The point I want to make is this: what method do you follow to provide for depreciation on Canadian lines? Is it done by means of replacements; that replacements are supposed to account for all the depreciation that took place, and if not, where does the depreciation show? I notice also on the analysis sheet on page 6, referring to what Mr. Hanbury has said, "There were no purchases of new equipment during 1934; the changes in the number of units of equipment are the result of retirements and conversions. The reduction of 10,081 freight train cars was brought about by the retirement of 6,540 freight cars and the conversion and transfer of 3,541 freight cars to work service." Now you have absolutely retired 6,540 freight cars. What is that charged against? Is there a depreciation account?

Hon. Mr. FULLERTON: That is charged to operating expenses.

Hon. Mr. MANION: What page?

The CHAIRMAN: Mr. Euler is reading from the analysis on page 6.

Hon. Mr. EULER: It is explanatory of the other item.

The CHAIRMAN: We are dealing with the accounts on page 17.

Hon. Mr. EULER: How is the depreciation accounted for in the national books so far as the railways are concerned in Canada? I see in the United States you do make a certain charge for depreciation, but how is it handled in Canada?

Hon. Mr. FULLERTON: It is charged to operating expenses.

Hon. Mr. EULER: You have no depreciation account in Canada at all?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: How do you compensate for, for instance, the retirement of those cars? That certainly is a reduction in your assets.

Hon. Mr. FULLERTON: It is credited to the investment account, and charged to operating expenses.

Hon. Mr. EULER: Where is it found in the operating expenses?

Mr. FAIRWEATHER: Maintenance of equipment expenses on page 18.

Hon. Mr. EULER: Would you say that that sufficiently provides for your depreciation?

Hon. Mr. FULLERTON: Mr. Hungerford, you can answer that question better than anybody else. Do those retirements sufficiently provide for the depreciation?

Mr. HUNGERFORD: Those retirements take care over a period of time of cars, or units of equipment, that are worn out. We have a special condition of an accumulation of equipment not worn out that have become obsolete.

Hon. Mr. EULER: That is another item.

Mr. HUNGERFORD: That is another item altogether. So far as worn out units are concerned, those retirements are charged to operating expenses and take care of that.

Hon. Mr. EULER: I asked a pretty plain question, and I think I asked it last year, and the question was whether the amounts charged to operating expenses really in that way provide sufficiently for the depreciation that is undoubtedly taking place on the railway.

Mr. HUNGERFORD: You have to make a distinction between equipment worn out in service and that which becomes obsolete?

Hon. Mr. EULER: I quite understand that.

Mr. HUNGERFORD: So far as worn out equipment is concerned, it is quite sufficient. Now, in the United States they have a depreciation account for equipment but under conditions existing in the last few years they find the depreciation reserves are wholly inadequate to meet the requirements, and the Interstate Commerce Commission has authorized the retirement of large quantities of rolling stock, and that is charged to profit and loss.

Hon. Mr. EULER: I know, but that depreciation and obsolescence, will have some effect on your final profit and loss sheet, and I notice in your statement here you have an item wherein it is recommended that you write off in the 1934 accounts, an item of \$23,000,000 for obsolescence.

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: If that is all charged against 1934, it seems a pretty large amount for one year.

Hon. Mr. FULLERTON: We propose to follow the rules of the Interstate Commerce Commission and charge it to profit and loss.

Hon. Mr. EULER: What I was going to say is this, if you are going to charge \$23,000,000 for obsolescence into last year's operations you are certainly going to have a larger loss than apparently shows on your statement.

Hon. Mr. MANION: A larger deficit.

Hon. Mr. EULER: Yes.

The CHAIRMAN: You do not charge for obsolescence, you charge for retirements, don't you?

Hon. Mr. FULLERTON: We practice retirement accounting.

The CHAIRMAN: Not obsolescence, because it is a first hand charge that will be taken care of in the depreciation account.

Hon. Mr. EULER: Oh, no, that is separate altogether.

The CHAIRMAN: When you retire equipment, how do you treat it in your consolidated balance sheet. Do you credit your investment account?

Mr. FAIRWEATHER: Yes, it is written out of your investment.

The CHAIRMAN: How does it appear on the credit side of the ledger?

Mr. FAIRWEATHER: As our set-up is, it goes into our deficit account.

Hon. Mr. EULER: That was not done this year, because I read here from the auditors' statement on page 11:—

In the matter of accounting for obsolescence, our recommendations along the lines made in the aforementioned letter dated 18th February, 1935, to the Board of Trustees may be summarized as follows—

(a) That the profit and loss account of 1934 be charged with an amount of \$23,238,857 to provide for a reserve for obsolescence of equipment.

That has not been done, has it?

Mr. LABELLE: No, it has not been done yet. You have the story on page 10 of the annual report. We mentioned that in the annual report.

Mr. GRAY: I was going to suggest that "obsolete equipment," reported by the trustees on page 10, I think requires some further explanation and this might be the time to obtain it. For instance, the first line reads:—

The trustees have had under review the advisability of authorizing an exceptional program of equipment retirements.

Then a little further down it goes on:—

The president recommends the demolition of a large number of units of rolling stock equipment which will never again be required for service, or permitted to interchange.

It says "exceptional program," which would sort of bear out the point which the hon. member for North Waterloo has just raised. Would the president enlarge upon that?

Mr. HUNGERFORD: Mr. Chairman, we have a number of copies of a report that I made to the trustees covering this question, a sufficient number, I think, for every member of the committee. As the question is rather involved, it might serve the purpose if we distributed these copies, and the members had an opportunity to read them.

Mr. GRAY: And discuss it again at a later stage.

The CHAIRMAN: Let us have them, Mr. Hungerford.

Hon. Mr. EULER: I suppose it sums up in this way: The statement of the trustees is that depreciation is cared for by charging to the operating account, but obsolescence has not been dealt with. Is that correct?

Hon. Mr. FULLERTON: That is quite true. When it is obsolete, it is true the assets are not there. It is our duty to call that to the attention of the committee. The recommendation to the trustees was that we retire it in the

1934 accounts. Well, the trustees all did not see eye to eye as to that being done. However, we mentioned it in our report. But the assets are not there; there is no question about that.

Hon. Mr. EULER: There is impairment of capital there.

Hon. Mr. FULLERTON: Yes, there is impairment of capital.

Mr. HANBURY: Probably Mr. Fairweather or one of the officers could tell us what the C.P.R. practice is in that connection.

Mr. FAIRWEATHER: The Canadian Pacific I know does practise the same accounting procedure as regards retirements as we do, because it is prescribed, as a matter of fact, by the Dominion Bureau of Statistics, and the uniform accounting of Canadian railways. What they actually charge to retirements in each year is shown in their accounts, of course.

Mr. HANBURY: Yes.

The CHAIRMAN: Then, on page 10, to which you referred, Mr. Euler, it seems to me that we get the matter down to the last two paragraphs under obsolete equipment:—

The matter is receiving the careful attention of the trustees.

The Canadian National Railways will have to face a capital loss if as and when they are authorized to abandon thin traffic branch lines These abnormal retirements of property do not involve present cash outlay (except for salvage operations, where the salvage should exceed the cost of demolition). They are losses of a capital nature to be dealt with separately and distinct from operating charges . . .

And you are considering the whole matter.

Mr. GRAY: I think we ought to have a chance to read this.

Mr. HANBURY: Mr. Chairman, in connection with maintenance of ways, the suggestion has been made that as a result of deferred maintenance, the railways of Canada—and we are particularly interested in the Canadian National Railways—are faced during the next few years with spending a very large sum to put their right of way back in the condition it was before, you might say, the depression. I have had estimates given to me that it was going to require \$50,000,000 or \$60,000,000 by the Canadian National Railways. I would like the Chairman, if he could, to give me any information he can in that respect.

Hon. Mr. FULLERTON: The president, of course, knows more about that than I do.

Mr. HUNGERFORD: I disagree entirely with that statement. We have maintained the line to a standard proportionate to the traffic requirements.

Mr. HANBURY: In other words, it is not necessary to look forward to the people of Canada furnishing any large sum of money to take up the slack of this deferred maintenance.

Mr. HUNGERFORD: I do not think so; not so far as tracks, bridges and structures are concerned.

The CHAIRMAN: Are there any other questions on maintenance of way and structures expenses? If not, we will go on to maintenance of equipment expenses.

Mr. TUMMON: What page are you on?

The CHAIRMAN: Page 18.

Mr. GRAY: Mr. Chairman, I assume you will permit us, after we have had a chance to read this report filed by Mr. Hungerford on obsolete equipment, to again question the management in connection therewith. It is some seven pages long. Is that agreeable to you?

The CHAIRMAN: There will be no objection to that. Is there any other question on this item?

Mr. HANBURY: Under maintenance of equipment, Mr. Chairman, I would like to know from the officers what shops are maintained throughout Canada, and whether it is economical to maintain those shops; or whether perhaps some of the shops are maintained for political or sectional reasons. I think it is something of importance for the people of Canada to consider, whether the railways are operating on the most efficient basis, without consideration to sectional or political influences, or whether those influences have some bearing.

Mr. HUNGERFORD: We have a number of shops which, as the result of amalgamation, are not in every instance where they suit present requirements best; but to change them around would cost more money than the saving which would be effected. At the present time, of course, we have a greater shop capacity than we require, but under traffic conditions such as prevailed a few years ago, we need practically all the shops.

Mr. HANBURY: In other words, you suggest that if normal conditions return all of the shops you now have are properly located for economical operation?

Mr. HUNGERFORD: We will require all of the shop capacity. Of the shop capacity, it is quite true that they are not all located in ideal positions.

Mr. HANBURY: Would you go further and suggest what shops are not located economically?

Hon. Mr. MANION: May I suggest here that I do not think—if I may say so, and it is not with any purpose except the saving of future trouble for somebody—that Mr. Hungerford should be asked to say that. For example, suppose he named a shop in my city. Immediately my city is stirred up into a furore. Whatever city might be mentioned would be stirred up in the same way. I suggest, with all deference, that that is a question which might well be left out.

Mr. GRAY: Hear, hear.

Hon. Mr. MANION: Mr. Hungerford has given us a very clear and straightforward statement that some of the shops are not ideally located because of the bringing together of the two different railway systems. At the same time, he thinks they are economically situated in a general way and are satisfactorily placed for the railway. I should think that would be sufficient.

Mr. HANBURY: Well, Mr. Chairman, when we are considering deficits on the Canadian National Railway we are faced with a loss which is undisclosed, based on uneconomical location of some shops. That is not given consideration by the people of Canada, and there are many other features of the operation of the Canadian National Railways that are not given consideration. In other words, the Canadian National Railways are performing services which, if they were privately owned, they probably would not be performing; and unless we have some information to show what services they are performing over and above what a private company would perform, it is hardly fair to criticize the extent of their loss. That is the point that I wish to cover.

Hon. Mr. MANION: If it is the desire of the committee, I have not anything further to say.

The CHAIRMAN: I think you will agree that specific instances might be left out.

Hon. Mr. MANION: I will, personally.

The CHAIRMAN: —in order to deal with the whole situation quite fairly.

Hon. Mr. EULER: The same thing applies in many other things; for instance, the buying of coal.

Mr. HEAPS: Yes.

Hon. Mr. MANION: I wish you would go into the buying of coal.

Hon. Mr. EULER: I brought it up before. I think we buy Nova Scotia coal—and this is with no offence to anybody from Nova Scotia—or the railways do, at a cost much higher than they can obtain it elsewhere; and they do it in order to promote Canadian business. That is not particularly the duty of the Canadian National Railways; and in one sense is not a fair charge against the public operation of the railway.

Hon. Mr. MANION: In that regard I just wish to say this, that I find, for example,—I will not discuss Nova Scotia coal—in regard to western coal, the C.P.R. buys much more Canadian coal than does the C.N.R.

Hon. Mr. EULER: Why is that?

Hon. Mr. MANION: I find that to be the case by the figures I am given. I think that both railways;—if I may so say, with due deference—owe a duty to the country from which they are getting whatever business they are getting, to purchase Canadian goods, even if sometimes at a loss. We all do it in our own individual lives; and I think a corporation such as the C.N.R. and the C.P.R. should do it.

Hon. Mr. EULER: That is all right within reasonable limits. I think that is sound enough within reasonable limits.

The CHAIRMAN: Gentlemen, on the question of maintenance of equipment, are there any further questions? If not, we shall go on. We jumped ahead, on your question, to transportation expenses. Is there any further discussion on the coal item?

Mr. HEAPS: The question having been raised, perhaps we could have what the differential is between the coal that they actually purchase and what it could be purchased at from other sources.

The CHAIRMAN: Well, you have got your items in there for locomotives, fuel and so on. Is that too hard a question?

Hon. Mr. FULLERTON: It is a pretty hard proposition.

Hon. Mr. EULER: I think the officials answered last year. I think Mr. Fairweather could give us an approximate answer, if he so desires.

Mr. FAIRWEATHER: Of course, it is a thing that changes with traffic and changes with the market conditions for whom day to day—actually changes with our traffic conditions, because there are times when we have to move coal against the current of traffic and other times when we are able to move it with the current of traffic, which makes a big difference in our current costs. All these things are taken into consideration.

Hon. Mr. EULER: Is that \$1,000,000?

Mr. FAIRWEATHER: Well, at times it has exceeded that.

Hon. Mr. EULER: Yes.

Hon. Mr. MANION: That is, you mean the excess cost of Canadian coal over American coal, if you bought the latter.

Mr. FAIRWEATHER: If you had, let us say, a perfectly hard boiled basis, you would find, I think, that there would be offsetting factors, even if you did that. You see, that is the direct picture. But a railway participates so much in the vital life of the country and it uses so much of the raw products of the country, that if they change their purchasing policy in the way that it would be suggested, of purchasing on a perfectly hard boiled basis, although they might save say a million dollars in their operating expenses, the secondary results of diverting that purchasing power would have an effect on the railway.

Mr. HEAPS: Would you explain how it is in western Canada the C.P.R. uses western Canadian coal and the C.N.R. is not doing that to the same amount?

Mr. FAIRWEATHER: We are using western Canadian coal through western Canada.

Mr. HUNGERFORD: Just to the same extent, practically, as the C.P.R.

Hon. Mr. MANION: I am glad to have that mentioned, because according to a statement given to me by the secretary of the Dominion Fuel Board on January 29, the Canadian Pacific Railway used twice as much Canadian coal in western Canada east of Winnipeg as did the Canadian National. I only mention that because I think that both sides of the question should be given. I am not quarreling. I have not any quarrel with either company as to its policy. I have here some figures, and I will give them as given to me by Mr. F. G. Neat, secretary of the Dominion Fuel Board. I will give them for three years. He shows the Canadian National purchasing—this is Alberta coal.

Hon. Mr. EULER: Not B.C. coal?

Hon. Mr. MANION: Before I go on, I might say that I thought this was all western coal, but it is Alberta coal. Would there be more purchases of British Columbia coal by the C.N.R. than there would be by the C.P.R.?

Mr. HUNGERFORD: There might be, I don't know.

Hon. Mr. MANION: I thought this was the total, but it is Alberta.

An Hon. MEMBER: What about Saskatchewan coal?

Hon. Mr. MANION: However, they are going into the figures. I believe I am right in saying that the Canadian National purchased very much more Canadian coal on its Eastern lines than the C.P.R. I think that is true, isn't it?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: Because we have many more lines in the east than the C.P.R.

Mr. HUNGERFORD: Both roads use western coal, so far as coal is used. There are some territories in which both the roads use oil. West of Winnipeg both use coal, and to a certain extent east of Winnipeg.

Mr. HEAPS: You could not use any more coal than you are using, so far as the western lines are concerned?

Mr. HUNGERFORD: Practically no.

Hon. Mr. MANION: I have had complaints made to me, the same as Mr. Hanbury has had, that because the Canadian National was a national road it should use Canadian coal to a greater extent than it does. However, that is another matter. I will give you the figures for the consumption of Alberta coal east of Winnipeg, Canadian coal; in 1932 the Canadian National used 83,000 tons, and the Canadian Pacific used 104,000 tons; in 1933 the Canadian National used 99,000 tons and the Canadian Pacific used 128,000; in 1933 the C.N. used 85,000 tons and the C.P.R. 150,000. I only mention it because I think we should realize that both railways, both the Canadian National and the Canadian Pacific, are as I think they should be favouring the Canadian product as far as they reasonably can economically.

Mr. HEAPS: Those figures only signify the amount they used, but evidently according to the statement made by Mr. Hungerford they could not use more coal than they actually require. It is quite possible that the requirements for the C.P.R. western lines might have been greater than the requirements for the C.N.; it is also possible that the C.N.R. made purchases of large amounts of coal from British Columbia which are not shown in these figures.

Hon. Mr. MANION: I don't think that is true. I think the Canadian National business in the west is greater than that of the Canadian Pacific; is that not true?

Mr. FAIRWEATHER: My own figures on our coal purchases in western Canada, including Vancouver Island, bought for ordinary operating purposes, show that our purchases totalled 895,000 tons.

Hon. Mr. MANION: For what year, last year?

Mr. FAIRWEATHER: Last year.

Hon. Mr. MANION: How much did the C.P.R. purchase, have you that figure?

Mr. HEAPS: What were the figures you had there?

Hon. Mr. MANION: I just had Alberta, used east of Winnipeg, 85,000 tons.

Mr. HEAPS: What was the figure Mr. Fairweather gave us?

Mr. FAIRWEATHER: That was 895,000 tons, our total purchases in western Canada last year.

Hon. Mr. MANION: Did you say 895,000 tons in 1934?

Mr. FAIRWEATHER: Yes. We purchased in eastern Canada 1,529,000 tons.

Hon. Mr. MANION: That, of course, would include the ships on the Pacific coast.

Mr. FAIRWEATHER: That would include our ships.

Hon. Mr. EULER: I don't want to be understood as objecting to the purchase of Canadian coal; but I do say, if the price is not prohibitive and it does not cost too much; but it does not seem to be fair to charge extra because of something which is done for national purposes to the railways, anymore than in the case of reduced freight rates to the Maritimes. The federal government assumes the reduction in the freight rates entirely, because it is a national purpose; so that the railways need not suffer they reimburse them on that account. The Canadian government also has assumed the interest on the deficits these last three or four years.

Mr. HEAPS: Might I ask in regard to eastern lines whether the C.P.R. use Canadian coal, or whether they use American coal?

The CHAIRMAN: We should have to ask them I am afraid.

Mr. HEAPS: We are told that they use more coal out west than the Canadian National. I thought possibly you might have some information about that.

Hon. Mr. MANION: I made the statement that I thought (and I think it is right) that the Canadian National purchased much more Canadian coal in the east than did the C.P.R. I think that statement is correct.

The CHAIRMAN: There is one question which I suppose comes under transportation expenses which came to me in a letter. I haven't the letter now, but the substance of it was that apparently certain ex-service men claim they are not being properly taken care of in regard to their tour of duty; that they lost their runs, and lost their places; and that the Montreal agreement in their case was interpreted against them. Do you know anything about anything of that kind, Mr. Hungerford? I think this letter was from Winnipeg.

Mr. HUNGERFORD: We have had nothing but trouble in connection with that matter, and I expect that if I continue to railroad I will continue to have trouble of that sort. It is the result of the amalgamation of the lines, and the efforts that have been made by the men's organizations in connection with a readjustment of relationships.

The CHAIRMAN: This had reference more particularly to men who went overseas who on coming back found themselves dispossessed of a run, or of employment; and in other cases, where the men came back later, they found that others had taken their place.

Mr. HUNGERFORD: Such men retained their seniority right, that should not affect it.

The CHAIRMAN: I think it should not.

Mr. HUNGERFORD: They lost no seniority.

Mr. LABELLE: They did not lose any seniority on account of overseas service. Some of them lost their seniority because they left Canada to work in some of the industries on the other side. That is provided by a circular issued in 1931.

Mr. HUNGERFORD: I do not think any man lost anything who was connected with the war.

The CHAIRMAN: That was the charge, that it had caused an interruption in their service.

Mr. HUNGERFORD: No.

The CHAIRMAN: I will try to find the letter and see if there is anything more in it.

Mr. HANBURY: In this item I notice very large sums for injuries to persons. I would like to have some explanation of that. It is on page 19.

The CHAIRMAN: Three-quarters of a million dollars; the last item on the account.

Hon. Mr. FULLERTON: Is it that item of \$747,000?

Mr. HANBURY: Yes.

Mr. FAIRWEATHER: This is for transportation expenses.

Mr. HANBURY: Yes. Take the last item on page 19.

Mr. FAIRWEATHER: That item is in connection with employees injured or killed in the company's service; accidents that happen in the railway yards, on trains, and things of that character. Last year 29 employees were killed and 42 were permanently or partially disabled, as compared with 19 killed and 30 injured in 1933. Unfortunately, you cannot carry on an industrial activity without these things.

The CHAIRMAN: How is that compensation arrived at?

Mr. GRAY: Have you any estimate as to what it may cost the railway as a result of the Dundas wreck on Christmas day last.

Mr. HUNGERFORD: We have accurate figures in regard to the cost of the wreck itself; but as all of the settlements resulting from the unfortunate wreck have not been effected yet we will not have complete figures on that for a while.

The CHAIRMAN: This item represents practically a workmen's compensation?

Mr. FAIRWEATHER: Yes.

Mr. HANBURY: I understand it also covers passengers.

Mr. FAIRWEATHER: It would, yes.

Mr. HANBURY: So it is necessarily workmen's compensation?

Mr. FULLERTON: I think the bulk of it is.

Mr. FAIRWEATHER: In this particular year the bulk of it is.

The CHAIRMAN: Are there any other questions under that account? Then we have miscellaneous operating expenses; we had some questions on that. Restaurants—that is station restaurants I suppose.

Mr. HANBURY: Is this, miscellaneous operating expense, a loss; is that the balance between the receipts and the disbursements?

Mr. FAIRWEATHER: That is part of our operating expenses; it simply relates to items of operation such as dining car services, restaurant services and other miscellaneous operation.

Mr. HANBURY: Is this the total of the salaries paid for these operations?

Mr. FAIRWEATHER: These are the total expenses in connection with the operation of the items indicated under the headings.

Mr. HANBURY: There is that item for dining and buffet services, \$932,000; was that the expenses for the year for operating your dining car services on all railroads?

Mr. FAIRWEATHER: All that is chargeable to this account.

Hon. Mr. EULER: Could you tell me how much money you are making or losing on that dining car service?

Mr. FAIRWEATHER: Of course, our dining car service at any time is carried on at a loss. A question was asked yesterday with regard to that, and I think perhaps that answer could be given now. Mr. Hanbury asked what was the total cost of operating the dining cars, and what ratio does the actual food bear to the total cost? The answer to that is: the cost is best expressed in the form of controllable cost for meals served, including the cost of food and other supplies, and the cost of crew. These items amount to an average of \$1.08 per meal served. The food cost represents 29 per cent of this total. The average revenue per meal is 86 cents. The difference between these two figures represents our direct out-of-pocket loss.

Hon. Mr. MANION: Might I ask a question, just while you are at that point: I think within the last year or two you served a table d'hôte meal on your dining cars; did that improve your revenues, or was the result the reverse?

Mr. FAIRWEATHER: We tried that as an experiment last year, we tried it in various forms, and it did not improve our revenues. We did it with the intention, as has already been explained, of attracting the head-end passengers back to the diner; but he proved to be a shy bird and we didn't get him. The result was that we had to cut it out because we were losing too much money.

Hon. Mr. MANION: That is what I understood. The question came up during my absence yesterday, and I just wanted to ask about it in case it might be of interest.

The CHAIRMAN: It was in that connection that Colonel Cantley made his complaint about the fish.

That includes the hauling of the car does it?

Mr. FAIRWEATHER: No, that does not include hauling the car. That would not be what I would call a controllable dining car expense; it does not include that, or the cost of the car, or things of that character.

Mr. MCGIBBON: What would be the loss on your parlour car and dining car services over the system, it must be heavy?

Mr. FAIRWEATHER: Naturally, they are heavy. We are making a profit on our parlour car operations, however; our parlour car operations are carried on at a profit. On the whole we are making a profit on our parlour car and sleeping car operations.

The CHAIRMAN: Then there is your general expenses; your salaries—legal expenses, which, unfortunately, are going down. Next is, additions and betterments less retirements (page 21); that has to do with your question Mr. Hanbury I think.

Mr. GRAY: Your suggestion, Mr. Chairman, I think perhaps Mr. McIntosh and Mr. Davies are here and would like to speak to the committee on a matter affecting northern Saskatchewan and Alberta.

The CHAIRMAN: It would not be about branch lines, would it?

Mr. GRAY: Perhaps it is, I rather think so.

The CHAIRMAN: I am sure we would be very glad to hear from them. We will hear Mr. McIntosh now.

Hon. Mr. MANION: I suggested to Mr. McIntosh the other day in the House that he should come before this committee; and to Mr. Davies also.

The CHAIRMAN: Shall we hear Mr. McIntosh?

Mr. MCINTOSH: Mr. Chairman, Honourable Dr. Manion, representatives of the Canadian National Railway, and members of the special Shipping and Railway Committee:—

May I say the reason I am here today is just simply because of two branch line railways that in my estimation ought to be completed between North Battle-

ford and Edmonton. On March 5th I had a question up in the House of Commons. I asked the Minister of Railways a question pertaining to these branch lines. The Minister gave an answer and he said that these two branch lines were only two of many throughout Canada; that the depression had interfered with branch line building and that the management had that matter under consideration. Then I asked another question of the Minister on April 1st, which also related to both these branch line railways, and the Minister said on that occasion that he would be pleased if I came before the special committee dealing with railways and the matter could be gone into fully. Now, I want to thank the Minister for that invitation, and because of the acceptance of that invitation I am here this afternoon.

With regard to these two railway extensions may I say, gentlemen, that they concern, as I have said, two branch lines between North Battleford and Edmonton. I am here to ask for the construction forthwith of the St. Walburg-Bonnyville branch line connecting North Battleford, St. Walburg, Red Cross, Loon Lake, Flat Valley, Goodsoil, and Pierceland in northern Saskatchewan with Cold Lake, Bonnyville, and Edmonton in northern Alberta. This branch line was authorized by chapter 32, Statutes of Canada, 1929.

In Saskatchewan this branch line extends from North Battleford in a northwesterly direction for a distance of over ninety miles to St. Walburg. The line runs through one of the best mixed farming areas in western Canada. By repeated extensions from North Battleford since the early part of the present century, it has covered a distance of less than one hundred miles in approximately thirty years, or a little over three miles per year. Its objective at the start was Edmonton—over two hundred miles away. Considering the one hundred and seventy miles built from Edmonton in a northeasterly direction towards North Battleford and the ninety miles built in the opposite direction from North Battleford there remains approximately a one-hundred mile gap to finish before these two projected parts are connected.

That is one of the branch line railways, gentlemen, on which I would like to ask for action if possible. The second consideration I ask is the closing also of the gap on the Canadian National railway's branch line south of the big loop above described that is the line between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan.

Heinsburg is the terminus of this Canadian National railway's branch line starting at Edmonton and continuing southeast to Heinsburg a short distance from the Alberta-Saskatchewan border. In Saskatchewan the terminus of this branch line starting at North Battleford and running northwestward toward Edmonton is Frenchman's Butte, also a short distance from the Saskatchewan-Alberta border. The distance between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan, is approximately forty-one miles. This is the second gap that must be completed before the country between North Battleford and Edmonton will be satisfactorily railroaded and the business men and farmers provided with the required rail accommodation. Construction should commence on this gap as soon as possible. There will have to be new legislation brought down for this branch line railway.

Now, then, so much with regard to the two branch lines. I shall say a few words about the country through which these two branch lines will run and speedily develop.

The area lacking development is practically seventy miles in length from the northerly line to the North Saskatchewan river and immediately north of the North Saskatchewan river the southerly branch will connect. Back from the boundary line the distance is about forty to fifty miles which is unrailed and about seventy miles deep. That is there is an area there of approximately 3,500 square miles, and I might say that this belt of territory is a mixed farming belt of the very first promise, and practically all that country is settled. The natural and economic outlet for this territory is eastward through North Battle-

ford and Saskatoon. This traffic eastward in natural products also applies to a large belt of country extending into the province of Alberta beyond the Saskatchewan border, and from a railway point of view these two developing areas should be thought of as one, and having them railroaded will do away with the back haul to Edmonton which is a very serious handicap to all the districts concerned.

With regard to the back haul from Beaver River Crossing—that is on the northerly branch line—the back haul is 340 miles; and this back haul has a penalizing effect on the movement of all machinery and other necessities of life coming into the districts concerned from the eastern parts of the Dominion.

On the southerly branch there will be a back haul of over 300 miles to Edmonton, and this back haul, as I said, interferes with the economic development of this great belt of country.

Now, another point to be considered is that the population on the Saskatchewan side—because I am not dealing with the Alberta side as Mr. Davies, the member for Athabaska, will present that side of the case—the population on the Saskatchewan side which will be affected will easily run into 30,000. Another factor to be considered is that in the territory from St. Walburg to Beaver River Crossing in Alberta, we must remember that this road will run from St. Walburg to Kilronan, Red Cross, Loon Lake, Flat Valley, Good Soil, Beacon Hill and Pierceland to the Beaver River, and into this great area live stock, flour, machinery and lumber mills have to be taken to enable the people to carry on. The needs of thousands of people run into a great deal of traffic and a big sum of money from year to year. The extra prices which are tacked on all goods brought in these districts make progress almost prohibitive for some and retard the self-sustenance of the settlers a great deal. As many of these settlers are on relief, the government is paying the high price of settling the country anyway, whereas the settlers, had they a railroad, would more quickly become self-supporting and provide a load both ways for the railway. Otherwise, they must use the Edmonton haul to Beaver River Crossing or make use of the railroad to St. Walburg and there taken by other means of transportation thirty, forty or fifty miles from the ends of the steel inland.

The CHAIRMAN: Who did you say was presenting the Alberta side of the case?

Mr. McINTOSH: The member for Athabaska, Mr. Davies.

The CHAIRMAN: Is he dealing with the same matter?

Mr. McINTOSH: He is dealing with the Alberta case.

The CHAIRMAN: We had better have him here.

Mr. McINTOSH: He is here now. I may say that another factor to be considered is that many people from southern Alberta, southern Saskatchewan and southern Manitoba have come into this area from the dry areas of the south to make new homes for themselves and find themselves thirty, forty and fifty or sixty miles from steel, and because of this isolation they find a great difficulty in carrying on. Further, may I say I believe that if the records of the Canadian National Railways are gone into and the experience of those connected with the Canadian National Railways in northern Alberta, northern Saskatchewan and northern Manitoba are investigated, it will be found that the branch line running out of North Battleford to St. Walburg and out of North Battleford to Spruce Lake and on to Frenchman's Butte is one of the best paying branch lines in Canada. There is no doubt about it. The C.N.R. has taken out of that country in the last twenty-five or thirty years millions of dollars. The traffic has been heavy and trade has been enormous; and after extending these two lines and completing them the Canadian National Railways will doubtlessly have a paying proposition.

Now, then, may I say that on the north branch of this road—the road is built from North Battleford to St. Walburg, a distance of ninety miles—the

road is graded from St. Walburg to Loon Lake, a distance of forty-two miles. There is another part of the road graded from the Alberta boundary line south-eastward to North Battleford of twenty miles; and that means that we have over sixty miles of graded road ready for the steel between St. Walburg and the Alberta boundary.

The CHAIRMAN: How long ago was that done?

Mr. McINTOSH: Oh, that was done five years ago, Mr. Chairman. That means that over sixty miles of that road were graded and ready for the steel five years ago and that about thirty-five miles have to be graded and got ready for the steel. In all, there is a gap of 100 miles between St. Walburg and Beaver River Crossing that ought to be bridged, and out of that 100 miles, as I said, over sixty miles is graded and the other thirty-five odd miles must be graded and gotten ready for the steel.

Now, the sixty miles or over that are graded will have to be reconditioned, because, as I said, during the last five years the grading, to a large extent, has been demolished. As a matter of fact, they are using it for a highway in parts of "The North." The consequence is that that grade will have to be reconditioned, and I believe that would cost about \$500 a mile. The grading would run, perhaps, to \$1,000 a mile and putting on the steel and ballasting would run to \$1,500 a mile. I would imagine that the 100 miles could be reconditioned and graded and steeled for approximately \$3,500 a mile, or a total of \$350,000. If the northern line could not be wholly done this year or if the southern branch could not be attempted, then, at least, there should be something done in Saskatchewan from the St. Walburg end. With regard to the grading from St. Walburg to Loon Lake, which is a distance of over forty miles, why could not that grading be reconditioned and second-hand steel laid in order to bring the railway nearer to the thousands of farmers who have settled there from the dried-out areas of the south and others who are trying to build up new homes for themselves in northern Saskatchewan? That will afford encouragement, although it will not wholly meet the production needs.

More than that, if the government is contemplating bringing down a public works construction bill, or, in other words, a real relief bill, why could not the government include in this relief bill at least some part of the work on the Saskatchewan end of these two railways in order to get the work started?

Lastly, Mr. Chairman and gentlemen, every board of trade between North Battleford and Edmonton and every retail merchants' association between those two points, business men in general and all the farmers in that area between St. Walburg and Beaver River Crossing and between Frenchman's Butte and Heinsburg on the Saskatchewan side are solidly back of any government and of the officials of the Canadian National railways in taking action to see that something is done this year on one of those roads, and, if possible, on both of them.

Now, as far as the work is concerned, I may say that it is urgent. I believe if an investigation were made—and I have no doubt that the Canadian National must have the facts on the situation—it would show this to be a sound business proposition. I do not believe the statement that because we have a depression in Canada is any answer for inaction. Neither do I believe any answer to the question, that these two roads should be built, is found in the statement that there are other roads to be built in Canada. I believe both these northern lines ought to be considered by themselves in a particular way—indeed may I say in a special way. If at all possible some extension work should be done this year in each line to encourage the development of the north and to bring hope and confidence to the hearts of thousands of farmers and business men who are intimately concerned with the building up of that part of northwestern Saskatchewan.

I thank you gentlemen for all possible speed in the building of these two greatly needed branch line arteries of trade and development.

MEMORANDUM TO SPECIAL RAILWAY COMMITTEE, HOUSE
OF COMMONS, WITH REGARD TO BRANCH LINES OF THE
CANADIAN NATIONAL RAILWAYS NOT YET COMPLETED
IN NORTHWESTERN SASKATCHEWAN

By CAMERON R. McINTOSH, M.P., NORTH BATTLEFORD, SASK.

1. The branch lines referred to in memorandum and on which construction has been regrettably delayed for years are:—

(a) Construction forthwith of the St. Walburg-Bonnyville branch line connecting North Battleford, St. Walburg, Red Cross, Loon Lake, Flat Valley, Goodsoil, and Pierceland in northern Saskatchewan with Cold Lake, Bonnyville, and Edmonton in northern Alberta. This branch line was authorized by chapter 32, Statutes of Canada, 1929.

In Saskatchewan this branch line extends from North Battleford in a northwesterly direction for a distance of over ninety miles to St. Walburg. The line runs through one of the best mixed farming areas in western Canada. By repeated extensions from North Battleford since the early part of the present century, it has covered a distance of less than 100 miles in approximately thirty years, or a little over three miles per year. Its objective at the start was Edmonton—over 200 miles away. Considering the 170 miles built from Edmonton in a northeasterly direction towards North Battleford and the 90 miles built in the opposite direction from North Battleford there remains approximately a 100 mile gap to finish before these two projected parts are connected.

(b) The closing also of the gap on the Canadian National railway's branch line south of the big loop above described, that is the line between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan, Heinsburg is the terminus of this Canadian National Railway's branch line starting at Edmonton and continuing southeast to Heinsburg a short distance from the Alberta-Saskatchewan border. In Saskatchewan the terminus of this branch line starting at North Battleford and running northwestward toward Edmonton is Frenchman's Butte, also a short distance from the Saskatchewan-Alberta border. The distance between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan is approximately forty-one miles. This is the second gap that must be completed before the country between North Battleford and Edmonton will be satisfactorily railroaded and the business men and farmers provided with the required rail accommodation. Construction should commence on this gap as soon as possible.

AREA OF THE COUNTRY TO BE SERVICED BY THESE TWO IMPORTANT BRANCHES
OF THE CANADIAN NATIONAL RAILWAYS

(a) The area lacking development because of the non-completion of both of these branches is easily 70 miles deep on the Saskatchewan-Alberta boundary. It extends for a distance of between 50 and 60 miles eastward where it still is approximately 70 miles in depth. This is a very productive area. The natural and economic outlet for the grain, fish, lumber, wood, fur and livestock of this territory is eastward through North Battleford and Saskatoon. This traffic eastward in natural products also applies to a large belt of country extending into the province of Alberta beyond the Saskatchewan boundary. From a railway point of view these two developing areas should be thought of as one. In considering the back haul to Edmonton—a serious handicap in itself—the lack of through-railway service eastward and westward is indeed serious to the people of the districts affected.

(b) There is a costly back-haul from Beaver River Crossing westward in the direction of Edmonton for a distance of three hundred and forty-miles—a penalizing movement on all machinery and other necessities of life coming into the districts concerned from the eastern parts of the Dominion.

(c) The same statement can be made with reference to the branch line southward. There is a similar penalty or punishment because of extra mileage or back-haul of 300 miles or more on goods coming in from eastern Canada to points on this branch line between Heinsburg, Alberta, and Edmonton.

(d) The area in Saskatchewan affected by the non-construction of these two branch lines approximates 3,500 square miles, with a population of 30,000 to 40,000.

(e) The population of the country, the development of which has been retarded by the prolonged delay in completing the branch railway from St. Walburg to Kilronan, Red Cross, Loon Lake, Flat Valley, Goodsoil, Beacon Hill, and Pierceland, has endured great hardships in conveying into these districts supplies such as live stock, flour, machinery and lumber mills without which they would have been unable to “carry-on”. The needs of thousands of people run into a great deal of traffic and a big sum of money from year to year. The extra prices which are tacked on all goods brought into these districts make progress almost prohibitive for some and retard the self-sustenance of the settlers a great deal. As many of these settlers are on relief the government is paying the high price of settling the country anyway, whereas the settlers, had they a railroad, would more quickly become self-supporting and provide a load both ways for the railway.

(f) For a small part of this immense unrailed portion of northern Saskatchewan, that is the Loon Lake area, the following statistics of two years ago are of importance:—

Number of poultry.. . . .	96,000
" " horses.. . . .	3,500
" " cattle.. . . .	10,000
" " swine.. . . .	10,000
" " population.. . . .	10,000
Acres cultivated.. . . .	40,000

Settlers coming into “The North” from “The South” annually have run into the hundreds. Practically every quarter section of land has been taken up although northward and westward new areas are being surveyed and good land yearly thrown open to people from the dried out areas in the three western provinces of Alberta, Saskatchewan, and Manitoba.

(g) The area tapped by these two branch lines is on the whole quite fertile and has proved during the last seven years a great boon to thousands of farmers and business men seeking a new home in the north because of their inability to remain longer in the drought stricken lands of southern Manitoba, southern Saskatchewan and southern Alberta.

(h) Experience and the records of the Canadian National railway will show that both these branch lines are and have been exceedingly profitable to the railway during the past quarter of a century. This would indicate that the country concerned is highly productive and not excessively burdened with railway development.

It is therefore urgently requested that the area dealt with should be railroaded immediately. If an adequate sum of money is not available to complete these two lines forthwith then the government should decide

at once the maximum program that can be gotten under way this year. Over 60 miles of grade on the northerly line in Saskatchewan—that is 42 miles between St. Walburg and Loon Lake and over 20 miles eastward from the Alberta boundary can be reconditioned and the steel put on it for approximately \$200,000. This would leave about 35 miles to be graded and the steel put on it next year if it could not be done this year. The feeling of the farmers and business men of the territory through which these branch lines run is that action should be no longer delayed to give them an economic outlet eastward and westward in order that their part of the west may go forward to the great future that awaits it.

(i) In the event of the government presenting to parliament a public works construction program to relieve unemployment it is suggested that serious consideration should be given by the government to this railway problem in order that these two branch lines might be included in the program.

(j) We might say in conclusion that all the boards of trade between North Battleford and Edmonton, and all the Retail Merchants' Associations between the same two points as well as the rural areas surrounding them are solidly back of the demand for the construction of these two branch line railways that will mean so much for northern Alberta and northern Saskatchewan.

The CHAIRMAN: We are glad to hear you, Mr. McIntosh. Mr. Davies, do you want to say something on this?

Mr. DAVIES: Mr. Chairman and gentlemen, I am, I assure you, most grateful for the opportunity of presenting to the committee a few words regarding those two branch lines as far as northeastern Alberta is concerned. As I have sat at the rear of the committee and listened to the maze of figures that have been presented respecting coal, salaries, expenses and so on, I am not unmindful of the fact that it is not difficult for those who are residing in the hinterland perhaps to be overlooked. I do not propose to take very much of the time of the committee and for the sake of brevity, with your permission, I shall read a short memorandum that I have prepared. It is divided into three parts. First, the lines involved, second the territory involved, and third the suggested program. In respect to the lines involved, firstly there is:—

1. Completion of what is known as the Bonnyville-St. Walburg line which has been authorized by Chapter 32, Statutes of Canada, 1929.

The present line extends from Edmonton in a northeasterly direction for a distance of about 170 miles up to the Beaver River crossing, in the vicinity of Cold Lake, Alberta. There remains a gap of approximately 75 miles to connect this line with the Saskatchewan extension.

2. Completion of the line between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan, a distance of about 41 miles.

Heinsburg, the end of the steel on this line, is approximately 150 miles east of Edmonton and slightly north. There is no branch line bill passed yet authorizing the completion of this gap.

II. TERRITORY INVOLVED

1. The area adversely affected through the non-completion of both of these branches is 70 miles deep on the Saskatchewan boundary, running for a distance of 60 miles west, where it is about 40 miles deep. In this area the natural and economic outlet for the larger part of the grain and live stock should be eastwards, but because of the lack of completion of either of these railway gaps, no eastern outlet is available without a back-haul to Edmonton.

2. Most of the territory referred to above, and an additional area lying westwards to Edmonton, is penalized by the back-haul on all machinery and other supplies which come into the district from eastern Canada, which is, of course, a substantial part of the commodities they purchase.

3. This extra mileage at Heinsburg, Alberta, on goods shipped in from eastern Canada, amounts to 300 miles.

4. At Beaver Crossing, Alberta, the present terminus of the Bonnyville-St. Walburg line, the extra haul involved on goods from eastern Canada is approximately 340 miles.

5. The area concerned which is adversely affected by these two branch lines has a population (in the province of Alberta) of approximately 42,000 people.

6. The town of St. Paul, situated about 125 miles northeast of Edmonton, on the Edmonton-Heinsburg line, in 1933 shipped out 12,115 hogs, 650 head of cattle, 300 sheep and approximately 700,000 bushels of grain, and has a population of approximately 1,200. The shipments from the above point give some indication of the penalty involved through lack of direct connection with the east.

7. The area concerned is, generally speaking, quite fertile and during the past four years a very large number of new settlers have established themselves, so that to-day there is little, if any, homestead land available for settlement.

8. I am informed that the records of the railway will indicate that both these branch lines are exceedingly profitable to the railway, which would indicate that the area concerned is a highly productive one and that there has not been excessive railway development.

Now, with respect to the suggested program, may I say this: It is urgently requested that the area concerned should be given an eastern outlet immediately. In the event that only a small amount of money is available, it is suggested that the central span should be placed on the bridge over the Beaver river at Beaver Crossing, and that the steel should be laid at least as far as Cold Lake, Alberta, a distance of some $3\frac{1}{2}$ miles. The total cost involved in this work is estimated by the Canadian National Railways at \$150,000.

The long and precipitous hill which the wagon road has on both sides of the Beaver river makes it most difficult for settlers on the north of the river to haul their produce to the end of the steel at Beaver Crossing.

The completion of the bridge would overcome this difficulty, and at the same time would most likely assure to the railway and the extensive fish business emanating from Cold Lake, which is at present largely handled by trucks.

In the event that a public works construction program is brought down by the government, it is suggested that serious consideration should be given to including branch lines work on such program.

I must confess, Mr. Chairman, that I have not infrequently wondered why it was that in respect to public works construction program, some consideration has not been given to further construction of needy branch lines in districts which really do justify themselves. It would seem to me, and I do most respectfully suggest to the committee that the Canadian National railways, in respect to national public works program are just as much entitled to benefit from a vote from the government as is a municipality or as is a province; and I most sincerely hope that the committee will give some consideration to that viewpoint. I shall leave my memorandum with the reporter and I thank you very much for the opportunity of coming before you.

The CHAIRMAN: We are very glad to hear you and your remarks will appear on the record.

Hon. Mr. EULER: It is not my intention to interfere with any course of procedure you may wish to follow, but I rise at this moment to make a suggestion which has to do with the presence here of Mr. Matthews, the auditor of Touche and company. I think he would like to get away and it occurred to me that we might with convenience to himself, complete the discussion we had with regard to his proposal for the writing-down of the capitalization.

The CHAIRMAN: Mr. Euler, we have those additions and betterments, and we brought in Mr. McIntosh and Mr. Davies under this heading, although they might have come in at some other place, but once we have finished this account, the rest, I think, is what we have gone over many times. We may very well finish this matter and carry out the procedure you suggest.

Hon. Mr. EULER: All right.

The CHAIRMAN: Is there anything further under additions and betterments on page 21?

Mr. HANBURY: I notice here a large item for treating ties, creosoting. I was wondering if the management could give us a general statement as to the relative value of treated and untreated ties.

Hon. Mr. FULLERTON: You mean the benefit derived from treating ties?

Mr. HANBURY: The life and cost.

Mr. HUNGERFORD: It just doubles the life of a tie.

Mr. HANBURY: What is the general figure of a treated and untreated tie in the contract?

Mr. HUNGERFORD: Well it depends on the locality and the character of the tie to a very considerable extent.

Mr. HANBURY: Give it to us for a treated tie. Is it a fair statement to say the treated tie is a more economical unit than an untreated tie?

Mr. HUNGERFORD: On the whole I think yes.

Sir. EUGÈNE Fiset: When you are purchasing those ties, is the price fixed by the railway?

Hon. Mr. FULLERTON: To a very large extent, yes.

Sir. EUGÈNE Fiset: Is there any possibility of getting a statement as to a certain contract for ties that has been given at Rigaud? I do not want the item for the committee; if I can get it privately I will be perfectly satisfied.

Mr. HEAPS: He won't tie himself down.

Sir. EUGÈNE Fiset: I am quite willing to make it public. I should like to know the number of ties that have been supplied by Mr. Elzear Cote, merchant of Rimouski, either under his name or under the firm name of Auedine Cote and Fils, operating at Luceville, or Rimouski, P.Q. I would like to know the number of ties furnished by them and I should like to know also the price paid.

Mr. LABELLE: In 1935?

Sir EUGÈNE Fiset: From 1930 up to the present day. I should be quite satisfied if you will furnish me with the information later on.

Mr. GOBEIL: Mr. Chairman, have there been different prices for the same district? I always understood the price was settled for certain districts.

Hon. Mr. FULLERTON: I think that is quite correct.

Mr. GOBEIL: The contractors all receive the same price.

Hon. Mr. FULLERTON: I think that is quite correct.

Mr. HEAPS: How are the prices set?

Hon. Mr. FULLERTON: The prices are set by the purchasing department.

Mr. HEAPS: How do you determine whether the prices are fair or unfair?

Mr. BEAUBIER: Tenders are invited in all cases.

Mr. LABELLE: Tenders are asked from some firms, and then the prices fixed for everybody in the same territory.

Sir. EUGÈNE Fiset: I should like to know by whom the price is set and the quantity that is furnished at that price.

Hon. Mr. FULLERTON: As I understand the practice, details of the contracts are not given before this committee. I am in the hands of the committee, I suppose.

Sir EUGÈNE Fiset: We have had information before and the purchasing agents appear here to furnish the information.

Hon. Mr. MANION: Gentlemen, if I may interject, the information was never given for the current year. I do not think there is any objection to the information being given. I do not think there is any objection. What years are you asking for?

Sir EUGÈNE Fiset: I have given the years 1930, 1931, 1932, 1933 and 1934.

Hon. Mr. MANION: 1934 is the current year. That is the year we are dealing with. They have taken the attitude in the past regarding those ties that the figures should not be given for the year we are dealing with. As far as the contracts up to 1933 are concerned, I see no reason why you should not get it.

Sir EUGÈNE Fiset: The work on the contracts for 1934 would be completed before now.

Hon. Mr. MANION: I do not know.

Mr. FRASER: They are delivered and paid for in the current year.

Sir EUGÈNE Fiset: Certainly.

Mr. GOBEIL: Do you mean 1934-35 or the year 1933-34?

Hon. Mr. MANION: The contracts for 1934 would not be completed. They would be current contracts.

Mr. FRASER: They are 1935 ties.

Mr. LABELLE: Delivered in 1935.

Mr. GOBEIL: These are not completed.

Mr. HEAPS: I should like to get some information on the question of how the prices for ties are fixed. I understand that tenders are called for. Am I right there?

Mr. LABELLE: We were informed by the purchasing department that that was their practice.

Mr. HEAPS: Call for tenders?

Mr. LABELLE: They do not call for tenders as such; they call for different quotations, if you like.

Mr. HEAPS: They get quotations from a number of firms and then what?

Hon. Mr. MANION: Then they do not take the quotations; they fix the price. That certainly has been my information.

Mr. HANBURY: Quite correct.

Hon. Mr. MANION: That exactly is my information.

Mr. HEAPS: When they fix the price do they go according to the lowest quotation submitted to the department?

Hon. Mr. FULLERTON: I think they go a little lower; we do not go any higher, in fact.

Hon. Mr. MANION: In fact the prices last year were just under half what the prices were a few years ago, they have been bringing them down so much.

Mr. GOBEIL: Just about half.

Hon. Mr. EULER: Is there a selected list from whom tenders are asked? Or is it open to everybody?

Hon. Mr. FULLERTON: Open to everybody, as far as I know.

Mr. LABELLE: No, not the fixing of prices.

Hon. Mr. FULLERTON: Did you say "fixing prices"?

Hon. Mr. EULER: I said, is there a selected list from whom tenders are invited or is it open to everybody to tender?

Hon. Mr. FULLERTON: I think it is open to anybody to tender, as far as I know.

Mr. HANBURY: Anybody can tender?

Hon. Mr. MANION: Anybody can write in about them.

Hon. Mr. EULER: I should like to ask as a matter of information, curiosity perhaps, whether the authorities asking for tenders have a list of firms from whom tenders are invited, and that no others are invited. Is that the case?

Hon. Mr. FULLERTON: As far as I know with regard to ties that have been purchased since I was connected with the railway, the purchasing department has all to do with the purchasing. They look after it all.

Hon. Mr. EULER: That may be true, but that does not answer my question.

Hon. Mr. FULLERTON: I cannot answer it without consulting with the purchasing department and finding out.

Hon. Mr. EULER: With all respect to yourself, is there anyone else here that could answer that question?

Mr. LABELLE: I can give you the information that the purchasing department gave me, which was that they had a certain number of firms known to them as being tie contractors, and that about June or July they are asked what price they would quote for ties this year, to be delivered next year. Then they take these different quotations that come to them, and the purchasing department set their own figure. That is the information that I got myself from the purchasing department.

Hon. Mr. EULER: Can you tell me how the list is made up?

Mr. LABELLE: No, sir.

The CHAIRMAN: Then, after that does the purchasing department go into the field and buy, or do they buy from these people that have quoted?

Mr. LABELLE: The procedure is this: The purchasing department takes the list of the previous year of the different contractors; and if a contractor has contracted for 2,000 ties and has not delivered the ties, his name is not supposed to be on the list for the year. Then they report to the trustees. At the time they gave them the list of what were tentative contractors for the year 1935. Every letter that was sent to the department was supposed to be investigated by the purchasing department, as to whether the man who was writing was qualified to deliver the ties or not.

Mr. HEAPS: When you set a price which is lower than the lowest tender, do you expect these people to make anything on the tender?

Mr. LABELLE: Well, there was a rule established, I think it was two years ago, that the contractors should not get a greater profit than five cents per tie, and I think that is printed in the contract.

Mr. GOBEIL: Yes, it is.

Mr. HEAPS: If that is the case now, they are getting five cents profit. Ties are half the price they were a few years ago. Once upon a time it was a pretty good business.

The CHAIRMAN: Those days are gone.

Mr. HANBURY: Mr. Chairman, probably I have had more experience in ties than any member of the committee.

Mr. GRAY: Hear, hear.

Mr. HANBURY: As a matter of fact, Dr. Manion was kind enough one time, during my absence, to disclose my connection with the tie business.

Hon. Mr. MANION: I do not believe I used your name.

Mr. HANBURY: Yes, you did. You produced a stolen letter, or at least a photostatic copy of a stolen letter.

Hon. Mr. MANION: I did not steal it, anyway.

Mr. HANBURY: Well, I will accept your explanation, but I have always had my suspicions. I think perhaps Dr. Manion will let me make my statement, and if he wishes to correct it afterwards, I shall be very pleased to have him do so. I am frank in saying this to the committee, and to the public generally, that to the best of my knowledge and belief—and I have some knowledge and belief of what took place, particularly in the province of British Columbia—up until July 28, of 1930 I know of no case where any political influence was used in the purchasing of ties by the Canadian National Railway. Following that period, and when this government came into office there was a period up until the trustees were appointed when tie contracts were let based primarily upon the influence that a man could bring to get a contract. Subsequent to the time of the appointment of the trustees, I feel satisfied that political considerations are not given the same weight, or perhaps not any weight whatsoever in the placing of contracts; although I have no doubt that the trustees have been subject to a great deal of pressure by many people—some of it from high places—that contracts should be placed in a certain way. I am satisfied that they are trying to operate the road outside of political influence, in that particular regard at any rate.

With reference to the system adopted in the purchasing of ties in the province of British Columbia, the railway company at a period of a year will ask those people, who have in the past proved their ability to furnish ties in accordance with a contract, to tender on their requirements for the ensuing year. After they make up their appropriation of the quantity of ties that is going to be required, then they apportion those ties among the contractors. In arriving at the price, they have asked originally for what price the ties will be provided; and the railway company then, by taking into consideration various conditions as existing, we will say, on the Pacific coast as compared with the interior, and of the interior as compared with the province of Alberta, taking into consideration the hauling of the ties and the cost of the hauling of the ties—and unfortunately, in my opinion, taking into consideration some things which they should not consider—arrive at a price. This price is offered to these contractors, and if they wish to accept the order, it is sent to them. If they do not wish to, then they can reject the order. As I understand it, that is generally the system that has been adopted in British Columbia, at any rate.

I am going to take advantage of this opportunity, also, to voice some criticism I have of the, you might say, preference given to Alberta in the placing of tie contracts over and above the interior of British Columbia. Either rightly or wrongly, the railway company have allowed the industry to establish on their line in the interior of British Columbia. They are not giving it the support which, in my opinion, the lumber industry is entitled to. In the first place, they place them against the competition of the coast mills where they have the advantage of water borne traffic; and they will take distress quotations from the coast sawmills and use them as a yardstick with which to make their purchases from the interior sawmills, notwithstanding the fact that these mills have been established on their lines and are entitled to some support as a result of having been established there, and they having permitted them to establish there.

Then in connection with the relation between the interior of British Columbia and Alberta, for some reason which I have never yet been able to get a satisfactory explanation of, the railway company in purchasing their Alberta ties on one side of the boundary which may be ten miles from another place, pay a higher price in the province of Alberta than they do in the province of British Columbia; notwithstanding the fact that in the province of British Columbia they are obliged to pay, in many cases, higher government dues; also that they in the province of British Columbia, are endeavouring to maintain fair conditions of labour, pay minimum wages and regulate the hours of labour, whereas in the province of Alberta there is no regulation as to the hours of labour, and no regulation as to minimum wages. That is something that I think the railway company have not given the full consideration to which it is entitled. Generally speaking, I feel that the present policy of the railway company, in the purchase of their ties in British Columbia, is fair, and in my opinion, not subject to very much criticism.

Mr. HEAPS: Have you got a statement showing how many ties were bought in British Columbia as compared with Alberta?

Mr. STEWART: May I say that there are regulations as to hours of labour in Alberta just as much as in British Columbia?

Mr. HANBURY: I do not think it is in operation, being enforced.

Mr. STEWART: I know it is in operation and it is being enforced; because we have a very large plant in my riding which works twenty-four hours a day for over one hundred and twenty days, and they must work not more than eight hours per day. That is the law of the province and it is enforced.

Hon. Mr. MANION: I just wish to say a word here. I do not want to get into a long discussion on the tie question. We have had many discussions in this committee. I certainly did not start it to-day. But with regard to Mr. Hanbury's statement, he did say that he did not consider there was any politics in the purchasing of ties previous to 1930.

Mr. HANBURY: In British Columbia.

Hon. Mr. MANION: All I can say in regard to that is that I think there was a great deal of politics in the purchasing of ties previous to 1930 all over this country. The Canadian National Railways bought from 12,000,000 to 14,000,000 ties each of the two years before the election, and the best allowance that they said they required at the time when it was discussed even in this committee, was about 7,000,000. Since this government came into power we have purchased very few ties. I mean, the railways have purchased very few ties. I admit quite frankly, as I admitted in reply to my friend Euler down there some couple of years ago, that finding when we came into power that, according to my investigations, 75 to perhaps 85 per cent of the contracts were let to the friends of one political party, I protested strongly against that, and I had that altered, to some extent, by my protest. What I had to do with it was that when names were submitted to me by friends or political enemies—if I may use the term not offensively—I submitted these names to the management. That policy was changed, that is, giving them to one particular party. In the last two years I have not been in the country at all when the tie contracts were let. I was at Geneva two years ago, in 1933, and I was ill last year. The contracts were all let in my absence. I don't mind admitting very frankly that had I had the letting of the contracts, a great many of the people who got them would not have done so. But I did not have the letting of the contracts. I do not wish to criticize, but certainly if there is any politics at the present time in the letting of tie contracts, it is certainly not politics in favour of the party in power.

Sir EUGÈNE Fiset: As I am responsible for the discussion, to a certain extent, I would like to call attention to the fact that I do not criticize in any way, shape or form the method of the disposal of the contracts for ties by the Canadian

National Railways. I do not criticize even the distribution. I do not care if Mr. Cote got a contract or not. What I want to ascertain is simply the quantity of ties that he has furnished to the Canadian National Railways during the years 1930, 1931, 1932 and perhaps 1934, if possible. I simply want to know the circumstances. I do not criticize the action that has been taken. I simply want the information; and if a report is given to me in writing, I am quite satisfied, and that is all there is to it.

Mr. LABELLE: To the best of my knowledge, nobody in Quebec has been favoured as far as price is concerned.

Sir EUGÈNE Fiset: I do not even say that. I am quite sure that the price is all right. That is not the reason I am asking that. I simply want information.

The CHAIRMAN: Is that the name of the contractors?

Sir EUGÈNE Fiset: Yes. The man has it there. He may have only got a sub-contract. I simply want the information.

The CHAIRMAN: It has not been usual, the chairman says, to give the names of contractors.

Mr. GRAY: I think you were on the committee back in the years when we had long schedules attached to the minutes in which the names and the amounts of the contracts were shown.

Hon. Mr. MANION: I think you will agree that they dealt with years that were not what I called the current year a few minutes ago.

Mr. GRAY: I think that is right.

Hon. Mr. MANION: I have no objection to the management giving any information they wish; but the attitude of the management has always been—as Mr. Fullerton just said to the Chairman—that they will not give information of that sort, about ties, about purchases of any kind for the current year, for the reason that they claim it gives information out that should not be made generally public. I do not care what is done.

Sir EUGÈNE Fiset: I am simply asking for the report for my own information; that is all.

Hon. Mr. FULLERTON: I certainly have no objection to giving the information, but I think it might create a precedent for asking for almost any contract that we may give in connection with the business of the railway.

Mr. HANBURY: I am inclined to agree with that view just expressed. I do not see any reason why any member of parliament should not have that information confidentially, if he wishes to obtain it. I do not even restrict myself to the members of this committee. But I do not think it would be in the interests of the public generally that all tenders should be subject to review at any stage of the game. I think that is a wrong principle.

The CHAIRMAN: It does not seem to me that it is very good business to disclose the internal workings of the railway.

Sir EUGÈNE Fiset: If Mr. Cote was one of the contractors who had been asked to submit a price on which the price of these ties was fixed, I will not ask the question. But I am under the impression that an order was simply given to Mr. Cote. I want to know at what price, the price fixed for the general purchase of ties. I simply want to know the quantity that have been furnished, nothing else.

Hon. Mr. FULLERTON: Perhaps this would enable us to get along; suppose I gave this information personally to you?

Sir EUGÈNE Fiset: That is what I want.

Hon. Mr. FULLERTON: That is all right.

The CHAIRMAN: I do not think it should clutter up the record.

Sir EUGÈNE Fiset: I do not want it to go on the record.

Hon. Mr. FULLERTON: I think it is just as well that it should not go out to the public.

Sir EUGÈNE Fiset: I think you can trust me for that.

The CHAIRMAN: What is next?

Mr. HANBURY: Mr. Chairman, getting back to the business, I notice on here an item under hotels, of \$258,000. I assume that most of that would be the expenditure on the hotel in Vancouver?

The CHAIRMAN: What page are you on?

Mr. HANBURY: On page 21 of the report.

Mr. GRAY: Are you still paying for that?

Hon. Mr. MANION: Yes, and will pay for a long time.

Mr. HANBURY: Is it going to open at any time in the near future?

Hon. Mr. MANION: That was just a little conversation—and I am speaking to Hansard now—in a jocular vein which was going on at the end of the table.

Mr. HEAPS: I heard it, Doctor. I will tell.

Mr. HANBURY: Are the management in a position where they can make any statement as to what their plans are in accordance with the Vancouver hotel?

Hon. Mr. FULLERTON: I am afraid not. I wish you could make some suggestion to us.

Mr. HANBURY: My suggestion to the Chairman of the Board, and to the people of Canada generally, would be that when we get back to reasonable conditions, which I feel sure we will within a year or two, and particularly in view of the action taken by the Minister of Railways (Hon. Mr. Manion) as head of the Tourist Bureau, that if the Minister will co-operate with the Tourist Bureau in bringing people to Canada, this hotel can very shortly be opened. Frankly, I am reaching the point where I am a little critical about the degree of economy in the railway situation in Canada, we seem to be paying a little too much attention to our position instead of using what I may call imagination, in connection with both our hotel and our railway situation. I think we might use a little imagination, get people to come to Canada in various ways, and other things. Frankly, I think the time will come, notwithstanding Dr. Manion's fears in connection with it. I do not suggest that the hotel is ever going to pay a big return on the investment, but I think that hotel can very well be made to carry the expense of operating.

And, in connection with hotels, I would like it if the management could give us some general information as to what was the relative loss or profit in connection with the operation of the hotels last year, in comparison with previous years.

Hon. Mr. FULLERTON: Last year we had, for the first time in the history of the railways, a profit over operating expenses for our hotel.

Mr. HANBURY: For all the hotels?

Hon. Mr. FULLERTON: On all the hotels, for the first time we had an operating profit.

Mr. HEAPS: Could you give us a statement as to that?

Hon. Mr. FULLERTON: It was about \$37,000 altogether, as compared to a loss last year of \$176,000.

Mr. HANBURY: They all lost but two, did you say?

Hon. Mr. MANION: All of them made operating losses except two, and these two made an operating profit sufficient to show a general operating profit on all.

Mr. HANBURY: Could you tell us which ones they were?

Hon. Mr. FULLERTON: The Chateau Laurier made an operating profit, and the other one was the Nova Scotian.

Mr. HEAPS: Would you mind giving us the amounts?

Hon. Mr. FULLERTON: The Chateau Laurier made an operating profit of \$152,000; and the Nova Scotian made an operating profit of \$9,500.

Mr. HEAPS: I would say that the Chateau was the most expensive hotel, probably, to maintain in the whole country.

The CHAIRMAN: Of course, that does not include overhead, interest charges or things of that kind.

Hon. Mr. FULLERTON: No, but it includes taxes.

Mr. HEAPS: I maintain, however, that the Chateau is the most expensive hotel to maintain in the country.

Hon. Mr. FULLERTON: That is about the only hotel that gives an operating profit.

Mr. BAUBIER: It is running at capacity practically all the time.

Mr. HANBURY: How is the improvement accounted for?

Hon. Mr. FULLERTON: By the improvement in gross business for one thing, and I think also by good and careful management.

Mr. HANBURY: There has been a change in the management?

Hon. Mr. FULLERTON: Yes, there has been a change in the management, and I think the management to-day is splendid.

Mr. HANBURY: Yes.

Mr. STEWART: How much money have we invested in the Vancouver hotel at the present time, and how much will it require to complete the building?

Hon. Mr. FULLERTON: We have \$8,544,000 invested, and two million seven to complete.

Mr. HANBURY: That includes furnishing doesn't it?

Hon. Mr. FULLERTON: Yes.

Mr. HANBURY: What portion of that would be furnishing?

Hon. Mr. FULLERTON: Now, I haven't that here. I would say about a million dollars.

Mr. HANBURY: Yes; so that \$1,700,000 would be needed to complete the building.

Hon. Mr. FULLERTON: Yes.

Mr. HANBURY: What appropriation has been made for that work this year?

Hon. Mr. FULLERTON: \$300,000.

Mr. HANBURY: So then, on that ratio, it will be five or six years before the hotel is completed.

Hon. Mr. FULLERTON: Well, of course, if the situation were such that we would be justified in opening it I suppose we would ask for the money to complete it; but we do not regard the situation as opportune for opening at the present time.

Hon. Mr. MANION: May I just interject there for the information of Mr. Hanbury, the government has not even been consulted as to how much they would spend. I mention that to show that this matter is one which is entirely up to the management.

Mr. HANBURY: May I say that I am not criticizing the government of the day at all, and I am not criticizing the management of the railway; but I do think we should try and have a little vision for the future, and a little hope for the future. I would like to know if the management have any estimate as to what the loss would be in operation if the hotel were opened?

Hon. Mr. FULLERTON: We have no figures made on that at the present time, no estimate is available at the moment.

The CHAIRMAN: Now, gentlemen, shall we take up the matter on which Mr. Euler was to speak?

Hon. Mr. EULER: Mr. Chairman, the discussion we had yesterday on the recasting of the capital structure of the National railways was the direct outcome of a very definite and concrete suggestion, made by the auditors, Touche and Company. To me that suggestion seems the very essence of simplicity, but the Minister made a statement afterwards in which he referred to the complications involved in it; I think he referred both to the bookkeeping complications and to complications by way of matters of legislation. My own opinion was and is that the bookkeeping complications at least do not exist to any great extent, but on that point I was desirous of having Mr. Matthews give his opinion. I hope that you will permit him to do that after I have finished, because I have a motion to submit; I fancy it may perhaps be satisfactory even to the Minister, who made the suggestion yesterday that the whole matter be left for the consideration of a committee comprised of the Deputy Minister of Commerce, the Deputy Minister of Justice and the Deputy Minister of Finance. I raised the objection, if I may put it that way, that the matter should be considered by representatives of the people, perhaps, or the government itself; with all due respect to the gentlemen who were to comprise that committee; but they after all would not properly be authorized to frame policies, or anything of that kind. My thought was this: that the report of Touche and Company on this matter should be referred to the Board of Trustees for consideration. I say that because it is taken for granted now, and the report stated—and especially in the bill we passed two years ago—that the Board of Trustees of the National railways was to have approached the matter of consolidating these charges of the railways of Canada. Further than that, the Royal Commission on Railways, which sat three years ago, made a very distinct recommendation that the Board of Trustees, which they recommended should be appointed, should consider, and I suppose take action, on some scheme of writing down the capitalization of the National Railways. With that end in view then, I want to propose a motion here which it seems to me should meet with the approval of almost everybody, and it is this:

Moved by Hon. W. E. Euler, seconded by Mr. Gray, that the report of Touche and Company be referred to the Board of Trustees of the Canadian National Railways for consideration and report, with special reference to the recommendation of Touche and Company for recasting the capital structure of the Canadian National Railways.

I might add, just by way of observation, that while I consider that the Board of Trustees are the proper body to consider this question, they might also comply with the suggestion of the Minister by calling in as expert witnesses, or if you like, as technical advisers' the gentlemen who have just been named. And I would further suggest that as soon as the report, at least as soon as the definite recommendations by Touche and Company are submitted to the Board, that they could very well have a consultation with them, Mr. Matthews, or any other representatives of the old board of officers they might desire, despite the fact that they have been relieved of their duty. Now, it seems to me that that whole procedure would be logical, and it seems to me it should meet with the approval of everyone. With regard to the complications referred to by the Minister yesterday, I would like to suggest that Mr. Matthews be heard as to what his opinion is with regard to that matter.

Hon. Mr. MANION: Before you sit down; you mentioned that I said something about bookkeeping complications.

Hon. Mr. EULER: I may be wrong, but that is my impression.

Hon. Mr. MANION: You may be right, but I certainly do not remember saying it; and I do not know to what my honourable friend refers because I happen to have sticking into this copy of the Duff report the notes which I used. They were very roughly gotten up, but I don't remember that. I see nothing here on them that indicates that I suggested any great difficulty about book-keeping. What I did say was that there was much legislation involved and much inquiry would be needed; that the management must be heard by the committee I suggested. I did give the difficulties, for example one thing I mentioned was as to whether or not the roads be revalued as to its physical value, or its replacement value, its earning power and so on. I gave the broad complications merely to show that it would take considerable time to get anything in the nature of a report in connection with these questions. That is all I had in mind. What my honourable friend (Honourable Mr. Euler) has suggested is merely the reverse of what I said. I just suggested a committee—I am not married to it at all—I did suggest a committee of the Deputy Minister of Railways, the Deputy Minister of Finance and the Deputy Minister of Justice, as three men who would see all the phases of it—the financial, the legal and the railway. I suggested also that they should confer with the management and the trustees; and of course also with the auditors. I would not have any objection to having representatives of Touche and Company appear, as well as representatives of the auditors who have replaced them. I do not think there is a great deal of difference between the suggestion made by my honourable friend and the one made by myself.

Sir EUGÈNE FISET: There is a difference, Mr. Minister. The report of Touche & Co., is addressed to parliament. It is submitted by parliament through the Minister of Railways to this committee for consideration. Last year when we considered the interim report sent in by Touche & Co., it was the first time that the resolution of this committee was placed officially before us. This report which was sent to parliament, and through the Minister of Railways referred to this special committee carried the request that the matter should be submitted officially to the Board of Trustees for their consideration and report; and it seems to me that that is the only way in which we can get it properly before them, and officially before them for consideration. There is nothing to prevent them consulting with any special body such as you have mentioned, sir; but it seems to me that it is the duty of the Board of Trustees first to consider this report, in accordance with the wishes of parliament.

Hon. Mr. MANION: Might I just offer one suggestion in that regard. I am not opposing the motion at the moment, I think it might wait over until another meeting anyway. There is this suggestion or thought that comes to my mind. The auditors—who were Touche & Co., in the past and who at present are Clarkson, Gordon, Dilworth—are parliamentary auditors to audit the trustees, so to speak. They are to audit the management, and in that I include of course the trustees. Now, we are suggesting a rather extraordinary course it seems to me, we are submitting to the trustees themselves the audit which we have had made on the trustees, to get the opinion of the trustees on that audit. It seems to me to be a rather extraordinary course.

Hon. Mr. EULER: It has really nothing whatever to do with the audit at all. It is merely a suggestion with regard to the writing down of the capital structure.

Hon. Mr. MANION: I do not wish to take up any more of the time of the committee on this matter at the moment.

Hon. Mr. EULER: I mean that I am quite satisfied to accept the explanation or correction which the Minister made with regard to what he said yesterday. I was under the impression that he has said something about complications arising out of bookkeeping entries. To me it seems to be a very very simple matter, merely the re-aligning of the railway books with the public accounts; but while

perhaps as the Minister says we cannot decide on it absolutely to-day I think we might in the interests of Mr. Matthews himself, and to meet his convenience, have him at least give his views on the objections that were raised by the Minister. I don't know what he is going to say, but to my mind on the matter of book-keeping entries he ought to be able to give us something. It is very simple. It can be done so easily. The object we seek to accomplish could be accomplished without any regard to the matter of physical valuation at all.

Mr. GRAY: I was just going to call your attention, Mr. Chairman, to what perhaps you are now engaged in looking up. I just want to add to what Mr. Euler said by drawing the attention of the committee to the report of the Royal Commission, at page 30, in which, dealing with the capital structure of the Canadian National Railways they say:—

This question (that is, the capital structure) as well as that previously referred to, dealing with the present involved financial structure of the Canadian National system, should, in the opinion of the Commission, have the early attention of the Board of Trustees, which it is recommended should be entrusted with the control and management of the system.

Now, that is the recommendation by the Commission which, as the minister pointed out, is also the intent of the Canadian National-Canadian Pacific bill passed in 1933, to follow as closely as possible the recommendations by that commission. They investigated this, gave it careful thought, and we tried to follow as closely as possible their recommendation. On top of that when Touche and Company first introduced the recommendation last year the Chairman of the Board of Trustees, Hon. Mr. Fullerton, then stated that ever since taking office, and I presume following out the suggestion made by the commission in respect to this matter, he had given careful consideration to it. I feel like Mr. Euler that the place where this should first be considered and a report presented from should be the Board of Trustees which you have appointed in this connection. And, as Mr. Euler pointed out, there can be no objection to the Board of Trustees calling in whatever assistance they require.

Hon. Mr. MANION: May I utter one sentence. I read 87 in my remarks the other day, and I quite agree with it; but I do wish to say that while that report was before the board of trustees we have never had anything from the board of trustees in regard to the matter. It is true that Mr. Fullerton did say last year and this year that he thinks there should be recapitalization, and Mr. Fullerton is one of the board of trustees; but we have never had from the board of trustees any recommendation of any kind that I can remember in regard to recapitalization.

Hon. Mr. EULER: But we have had from the royal commission.

Hon. Mr. MANION: Yes.

Hon. Mr. EULER: I would suggest that if a committee is to be appointed it is surely logical that the board of trustees should be the committee and that they should call in these gentlemen rather than that they should be the committee and confer with the board of trustees. It is only logical.

Hon. Mr. MANION: Let us hear Mr. Matthews.

Mr. HEAPS: Do you intend calling Mr. Matthews now at this late hour?

The CHAIRMAN: Let us call him and get through with him quickly.

Mr. STEWART: I have to speak to the returned soldiers and I would like to get away, but I would also like to hear Mr. Matthews.

Hon. Mr. MANION: I cannot be here in the morning; there is a large deputation from the Maritime Provinces that I have to meet.

Mr. HEAPS: Let us meet in the afternoon.

The CHAIRMAN: While it is nobody's fault, still we are keeping the railway officials away from their work.

Hon. Mr. MANION: Would there be time to hear Mr. Matthews now?

Mr. MATTHEWS: I do not know what Dr. Manion's statement was.

Hon. Mr. EULER: You heard Dr. Manion's statement yesterday, did you not?

Mr. MATTHEWS: Yes.

Hon. Mr. EULER: I would like to have the difficulties pointed out.

Mr. STEWART: Will I have the right to ask questions on the profit and loss statement?

The CHAIRMAN: You can ask anything you like. However, if there is likely to be interrogation we had better not rush through.

The committee adjourned to meet Thursday, April 11, at 3.45 p.m.

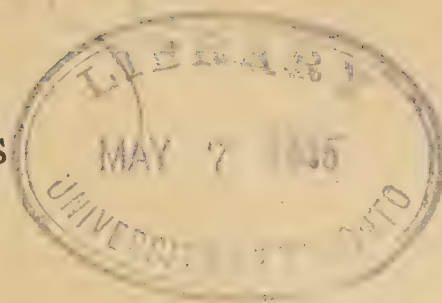
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Canada Railway and Shipping
Standing Committee, 1935

CPI 1015
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SESSION 1935

HOUSE OF COMMONS



STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, APRIL 11, 1935

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.

Mr. O. A. Matthews, of Geo. A. Touche & Co., Chartered Accountants.

Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

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1935

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 231,

THURSDAY, April 11, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 3.45 p.m., the Chairman, Mr. Geary presiding.

Members present:—Messrs. Beaubien, Beaubier, Cantley, Chaplin, Euler, Fiset, Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, MacMillan (*Saskatoon*), Manion, Power, Stewart (*Lethbridge*), Tummon.

In attendance:—Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance; Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.

The Committee took into further consideration the question of the writing down of the Financial Structure of the Canadian National Railways as recommended by the Auditors.

Mr. O. A. Matthews was called and examined.

Witness retired.

Mr. B. J. Roberts was called and examined.

Witness retired.

Mr. Matthews was recalled, further examined and retired.

Hon. Mr. Manion, seconded by Mr. MacMillan, moved, in amendment to Hon. Mr. Euler's motion (appearing in yesterday's proceedings):—

That, in the opinion of this committee, the question of changes in the capital structure of the Canadian National Railways, at present before the Board of trustees at the instance of the Duff Commission, and not yet reported upon, is too large and complicated a matter to be dealt with by this committee at this stage of the session and of parliament, and on the basis of information presently available.

The committee is further of opinion that it would be in the best interests of all concerned if, before any recommendation is made to parliament by this committee, the entire question should be studied by a committee consisting of the Deputy Minister of Railways and Canals, the Deputy Minister of Finance, and the Deputy Minister of Justice in order that due consideration may be given the important practical, financial and legal questions involved, and that for this purpose, the present report of Touche & Company should be referred to the proposed

committee of deputy ministers, who should be instructed to consult with the board of trustees and necessary officers of the Canadian National Railways with respect to the recommendations of both the Royal Commission and of Touche & Company.

Without the question being put, the Committee adjourned, on motion of Mr. Hanbury, until after the Easter recess, at the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 268,

April 11, 1935.

The select standing committee on Railways and Shipping met at 3.50 o'clock, p.m., Colonel O. R. Geary, the chairman, presiding.

The CHAIRMAN: Order, gentlemen. The minister would like to make a statement.

Hon. Mr. MANION: I would like to make a little statement about coal. Yesterday I unintentionally gave some information which could be twisted around a bit; it was wrong, but it certainly was not intentionally wrong. This morning, in order to straighten it out, I asked the Bureau of Statistics to give me the figures on the purchases of coal in western Canada for the two railways—the Canadian National Railway and the Canadian Pacific Railway; and I find the totals for the provinces of Manitoba, Saskatchewan, Alberta and British Columbia are as follows:

By the Canadian Pacific	1,052,434 tons
By the Canadian National	1,109,478 tons

That shows a slightly larger figure for the Canadian National Railways, but the figures are practically the same for the two. The figures are for the year 1933. The Bureau of Statistics has not the figures for the year 1934. The figures by provinces are as follows:

Coal used by Canadian National and Canadian Pacific in western Canada during the year 1933:		
Province	Canadian Pacific	Canadian National
Manitoba	239,162	355,579
Saskatchewan	342,795	409,839
Alberta	287,470	296,988
British Columbia	183,007	47,072
Total	1,052,434	1,109,478

The above figures are short tons.

The CHAIRMAN: Now, then, we were going to ask Mr. Matthews for some remarks. I do not know exactly what those remarks were to be about, but in connection with the report he has made. Do you want a general statement, Mr. Euler?

Hon. Mr. EULER: No, Mr. Chairman. The statement I wanted from Mr. Matthews is on a quite definite matter; I wanted to ask him whether the suggestion he has made for the writing down of capitalization—especially the first part concerning the billion dollars—whether that would involve any serious bookkeeping entries, and possibly he might speak with regard to legislation; and I was going to ask him for this reason: I have before me a copy of the proceedings of April 9th, and I find that the minister made this statement—I am not going to read all of it:—

Then there is this question to show once again the complications: Not only is there complication of the different companies, of the different bond issues, different mortgages at different rates of interest, not only are these questions involved, but on what bases are we going to change the capital structure?

I was going to ask Mr. Matthews whether, in his opinion, there would be any complications caused with regard to the bond issues and the matter of different companies and all that sort of thing? My impression is that that would not be involved at all; that the company would go along just the same as it is doing now.

The CHAIRMAN: He has covered that in his report.

Hon. Mr. EULER: I want him to elaborate it.

O. A. MATTHEWS recalled.

The CHAIRMAN: Mr. Matthews, you heard the question which Mr. Euler wants you to answer?

Mr. MATTHEWS: Yes.

Mr. MATTHEWS: After the question was raised yesterday afternoon concerning the matter of Dr. Manion's statement we prepared a short memorandum with a view to dealing as briefly as possible with the facts of the proposals. In our report on the capital structure on the 22nd of March last, and in our appearance before the committee on Thursday of last week, we dealt with the matter of misconceptions in the public mind both in Canada and abroad, of the effect of the National Railway finances upon the published net debt and budget deficits of the Dominion. Since that time there has come to our notice in the public press the reported address of Mr. Beatty, President of the Canadian Pacific Railway Company, before the Board of Trade and service clubs in Toronto on the 9th of April last; an editorial in the Montreal Gazette of this morning; and the subject matter of Dr. Manion's statement made before this committee on Tuesday last on the complexities of the present capital adjustment proposals. Apart altogether from the misconceptions which we illustrated to the committee a week ago, we cite the aforementioned statements and editorial as a further indication as the extent of these misconceptions, even in the minds of such well informed authorities as Hon. Dr. Manion, Mr. Beatty and the Montreal Gazette. We concede to these and all other authorities the inviolable right of opinion on a matter of such importance as the capital structure adjustment proposals of the National system. We furthermore make plain that we have no desire to discuss the matter in any controversial spirit, but we propose nevertheless to deal with the facts as they are. It is an axiom that fact or truth may be misunderstood or misinterpreted, but not changed. We invite reference to our report. After all that is the official record of the actual proposal. In its consideration there should be nothing read into the report that is not there, nor should there be ignored any facts or proposals therein contained.

In response to the request of the committee we will now reply to the statement of Dr. Manion in which he indicated that many corporate complexities would be involved in the carrying out of the capital structure proposals. We do so, however, with all due deference to Dr. Manion as Minister of Railways.

Hon. Mr. MANION: In response to your request, Mr. Euler; not the request of the committee.

Hon. Mr. EULER: Well, all right; I don't see that it makes any difference.

Hon. Mr. MANION: Well, it makes a difference; Mr. Euler is not the whole committee.

Hon. Mr. EULER: I might say that the Minister is not the whole committee either.

Mr. GRAY: Only a part of it.

Mr. HANBURY: Carried.

The CHAIRMAN: We will proceed, Mr. Matthews.

Mr. MATTHEWS: The capital structure adjustment falls under two main headings; first, the elimination of duplication of liabilities and losses aggregating roughly \$1,500,000,000 in the published accounts of the National system and

those of the Dominion of Canada. This is the only step advocated in our proposals and embraces only negotiation between the railways and the Dominion. Second, the possible adjustment at some unknown time in the future of some unknown part of the funded debt in the hands of the public by the transference from the published accounts of the railways to the published net debt of Canada. This is the step if ever undertaken in the future would involve the many complexities referred to by Dr. Manion. Let us reiterate once again, however, that our proposals do not involve any such step or complexities.

Permit me to read from our report on the capital structure under date of 22nd of March last: (page 5, paragraph 3)

Furthermore, the remedial proposals hereinafter submitted do not deal with the funded debt in the hands of the public, but rather with such methods to improve the presentation of facts, as are now at hand and which, in our opinion, are possible of early application.

Page 14, paragraphs 3 and 4:

In view, however, of the income deficits of the system during the past few years and the practical impossibility of ascertaining other than the theoretical value of the system to Canada from a utility point of view, we would deprecate any intensive and meticulous examination into this matter at this time as such an undertaking could not now be otherwise than costly to the Dominion and barren of practical results.

Furthermore, such an undertaking, carried on to its logical conclusion, would involve either the direct assumption of a part of the present railway funded debt by the Dominion or the payment of an annual interest subsidy to the National system on the basis of the national needs of Canada as distinguished from railway operations of a purely commercial nature. Neither of these steps would we be prepared to recommend until more normal times.

We have dealt with the two steps that are involved in what you might term the capital structure adjustment and its purpose. I would like now to give a brief summary of the real facts of the present proposal. On page 5, paragraphs 2 and 4:—

These capital adjustment proposals are not suggested for the consideration of parliament as a cure-all for the Canadian National Railway problems, but rather as a step in support of such measures as have already been provided for in the Canadian National-Canadian Pacific Act (1933) having as its purpose the ultimate establishment of the national system on a sound basis.

Then, paragraph 4 on page 5:

These recommendations to parliament, made with a view to establishing in the public mind both in Canada and abroad a fundamentally correct interpretation of the effect of the National Railways finances upon the Dominion public accounts, embody four main steps—

First—The adjustment of Canadian National Balance Sheet by the elimination of duplicate liabilities and losses.

Second—The reclassification of Public Accounts in respect of the Canadian National Railway System so as to show the accumulated cost to the country since pre-Confederation days.

Third—The exchange of the Dominion's present capital stock holdings and creditor claims in respect of corporate loans, advances and interest accruals for shares of capital stock in the Canadian National Railway Company.

Fourth—The use of explanatory publicity.

Now, that leads us to the first question of legislation. We have indicated to you roughly from the report what the steps proposed really are. The legislation required undoubtedly would be in the direction of alteration of the terms of the security and interest rates applicable to the corporate loans and advances. Let me draw a very distinct line of demarcation however, between parliamentary approval to a change in the requirements in regard to these original loans, and all of these complexities injected by Dr. Manion, regarding the public holdings of securities in the various corporations of the national system. There is a very wide difference. They are not the same, they are not related in any way. We are not as a firm in a position to say to parliament what legislation you will have to pass, we simply say that there is parliamentary legislation involved to the extent of changing the terms upon which the parliaments of other days made these loans and advances to the original corporate enterprises. Now, we think that you are in a better position to pass on that mode of procedure than we are.

Hon. Mr. EULER: Well, Mr. Matthews, if I may interrupt; if that method were adopted would there in your opinion be any complicated amount of legislation required?

Mr. MATTHEWS: Judging from the way in which we have observed succeeding parliaments to have changed the terms and conditions of former parliaments, we naturally assume that parliament would have the right at any time to change the term that had been made by it with any debtor of a former day.

Hon. Mr. EULER: No; my question is, would any complicated piece of legislation be required, in your opinion?

Mr. MATTHEWS: Well, I don't think so; but then, we take the position that we are not legislative authorities.

Hon. Mr. EULER: That is all right.

Mr. MATTHEWS: But we want to make this clear, gentlemen; that the legislation that would be required has nothing whatever to do with the multitude of problems that are involved in the corporate adjustment of the funded debt structure of this system. I will touch on that a little later.

Hon. Mr. MANION: May I suggest that Mr. Matthews' opinion on legal matters and on parliamentary matters must be somewhat limited.

Hon. Mr. EULER: That is all right, perhaps I should not have asked him the question I did, perhaps I should have asked it of somebody else. I have one other question that I would like to have clear in my own mind, and possibly also the committee would like to have it clear: Is legislative action required also for the purpose of writing off of this, so-called, billion dollar item; or only in regard to any change in the capital structure with respect to the other items?

Mr. MATTHEWS: It is our view, Mr. Euler, that if parliamentary authority were given to change the terms of the loans and advances and to authorize the Canadian National Railway Company to issue its capital stock in exchange on this basis it would automatically give approval to the company to make these entries; it would be I think a simple matter if parliament reached that point in its final deliberations to embody in that authority the direct approval to the National Railways to make such entries.

The CHAIRMAN: You will agree, of course, that that is a matter of draftsmanship?

Mr. MATTHEWS: Yes.

The CHAIRMAN: I do not quite understand you, Mr. Matthews; you will give an example of what you call a legislative change in terms.

Mr. MATTHEWS: When these loans were first made, Mr. Chairman, they were made on such terms as, orders in council would from time to time determine; and in the beginning they were made as repayable loans. Naturally, parliamentary authority would be required to rescind the basis upon which these loans

were originally made. In other words, if parliament has made a loan in the beginning to a company and the authority required that there be certain securities pledged behind that loan at a defined interest rate, obviously that same authority must ultimately deal with any change in terms.

Sir EUGÈNE Fiset: For the most part these orders in council related to specific items; is there any place where they are listed?

The CHAIRMAN: You will find that on page 25, Sir Eugène.

Sir EUGÈNE Fiset: Mr. Chairman, then some of these orders in council were passed under a former regime.

The CHAIRMAN: Prior to 1930, yes.

Mr. McGIBBON: What practical difference would that make in the picture of the railways?

Mr. MATTHEWS: It has to do, Dr. McGibbon, with the elimination of just plain duplication.

Hon. Mr. EULER: Yes quite.

Mr. McGIBBON: With reference to the loans governments in the past have made to the railways does it make any difference?

Mr. MATTHEWS: Dr. McGibbon, they are treated as corporate liabilities of the National Railways, whilst at the same time they are imbedded and embodied in the published net debt of Canada.

Mr. McGIBBON: I know there is duplication so far as that is concerned; but, taking the railway picture, they got their money and they spent it.

Mr. MATTHEWS: We are not saying they did not; that is quite true.

Mr. McGIBBON: Why do you change the picture as far as railway loans are concerned, I can understand, so far as the country and railway combined are concerned.

Mr. MATTHEWS: Dr. McGibbon, the other day we read to this committee some half dozen or more illustrations of the misconceptions that are held concerning the financial position of Canada, and they the misconceptions, are the foundation of our proposals for correction.

Mr. McGIBBON: I understand that. We are not dealing with the financial condition of Canada. We are dealing with the National railways.

Mr. HANBURY: They are both together.

Mr. MATTHEWS: We are treating them as one. After all, we were appointed as auditors by parliament.

Mr. McGIBBON: I do not think they come to this committee. They are not referred to this committee as an order of reference.

Hon. Mr. EULER: Oh, yes.

Mr. GRAY: That is in the act.

Mr. McGIBBON: The financial condition of Canada? Not a bit of it.

Mr. GRAY: Section 13 of the bill says that the auditors in making their annual report, shall call attention to any matters which in their opinion require consideration or remedial action.

Mr. McGIBBON: I was not talking about that.

Mr. HANBURY: The liabilities of the Canadian National are certainly something for this committee.

Mr. McGIBBON: Quite true, and that is our whole consideration. That is what we are here for.

The CHAIRMAN: Will you go on, Mr. Matthews?

Mr. MATTHEWS: We were briefly summarizing what the real facts of the proposals are; and if you will turn to page 14 of the Appendix, the second paragraph—

The CHAIRMAN: If you have finished with that one part, if you don't mind—I did not know you were going to pass on from the latter part of page 5 and the beginning of page 6—may I ask about this paragraph on the reclassification of public accounts. That means some consideration by those having charge of the public accounts of the Dominion, does it?

Mr. MATTHEWS: Yes, Col. Geary. This is an objection that has been widely raised by those opposing any change in the present capital structure of the National Railways. On page 8 we outline the basis upon which the total second of costs of the railways of Canada could be made perpetual, and that would surely be the logical and proper place since the parliaments of the future would have standing in front of them forever the costs of the so-called railway experiments in Canada. That is the express purpose of that recommendation. We read in many places to-day that the carrying out of these recommendations in some way or other would deceive the Canadian taxpayer, that in some way or other there would be a loss of the totality of the cost of the railways to Canada, and so forth. Let me repeat what I said to this committee the other day: You have not got it now; you never have had it, and this proposes to give it to you. Those who maintain such position surely must have read that part of the report, but singularly enough they seem to avoid that important provision as if it did not exist. As a matter of fact, these proposals in the report go very much further in making provision for keeping the people of this country forever informed on the railway problem, but at the same time they inform parliament of the effects of the duplicating of one and a half billion dollars in your accounts. We will come to that, if I might just be permitted.

The CHAIRMAN: I am afraid I have not made myself quite clear in asking that question. The point to which I intended to direct the question was as to the persons who would have to do with the reclassification of public accounts. They would be officers of the Dominion government, would they?

Mr. MATTHEWS: Yes.

The CHAIRMAN: That is the point I had in mind.

Mr. MATTHEWS: Oh, yes, quite.

Mr. GRAY: Go ahead.

Mr. MATTHEWS: We had referred to pages 5 and 6 of our report, and we had touched on the question of the legislation. We have attempted to make a clear separation between legislation for our proposals and the involved problems of the corporate structure of the National system as injected by Dr. Manion. On page xiv of the Appendix, supplementary to the matter of legislation, we make a secondary provision from the Dominion's point of view in regard to the surrender of these securities of the National system that are now held as collateral to loans originally made to corporate units.

Mr. HANBURY: By the Dominion government?

Mr. MATTHEWS: By the Dominion government. This plan contemplates an issue of stock by Canadian National Railway Company in exchange for obligations of the Canadian National Railway Company, Canadian Northern Railway Company and Grand Trunk Pacific Railway Company. It is proposed that the Canadian Northern and Grand Trunk Pacific shall remain obligated to the Canadian National Railway Company in precisely the same way and to the same extent that those companies are presently obligated to the Dominion. This is a precautionary measure to preserve in their respective priorities the legal claims the Dominion has against those companies for aid granted. These obligations would then become inter-corporate transactions, appearing in the separate corporate accounts of the companies, but having no place in the National system published balance sheet.

I might move next to the brief summary of the complexities.

The CHAIRMAN: As I understand it, that contemplates changes in the capital structure to some extent, a good deal of change in the capital structure; that is, that the National stock would be taken over by the government, and that it would have to be so done that the Canadian Northern and Grand Trunk Pacific remain still under obligation.

Mr. MATTHEWS: Not to the government.

The CHAIRMAN: No.

Mr. MATTHEWS: To the Canadian National Railway Company, which, in turn, would be completely controlled by the Dominion.

The CHAIRMAN: Yes, but if I am the Dominion government and I am contemplating this sort of thing, I have to have quite clear legal advice on that in order to do it.

Mr. MATTHEWS: Yes, quite. But it is only, as it were, a secondary line of protection. First of all, of course, there would be the legislative authority required from parliament for the transfer from the loan category with interest to the position of capital stock representing shareholders' equity. This would be the complementary step to it if, as and when parliament so chose to act.

The third explanation we would like to make is this—

Hon. Mr. MANION: Before you get away from that, may I ask one question. Has anybody suggested at any time that parliament could not, if it chose, put in this legislation? I mean, it seems to me that Mr. Matthews is arguing quite extensively that parliament could do this and that. I have never heard anybody suggest that parliament cannot do the things he suggests parliament might do. I am wondering what the object of the argument is.

Mr. MATTHEWS: I am not arguing, Dr. Manion. I am trying to outline, as we see it, the steps that would be necessary.

Mr. GRAY: How it could be done.

Hon. Mr. MANION: All right.

Mr. GRAY: Proceed, Mr. Matthews.

Mr. MACMILLAN: On what page is this?

The CHAIRMAN: On page xiv, in Roman numerals.

Mr. MACMILLAN: Page xiv of what?

The CHAIRMAN: Of this report, called "Report on the Capital Structure as at the 31st December, 1934."

Hon. Mr. EULER: I take it, Mr. Matthews, that you are merely outlining the procedure.

Mr. MATTHEWS: That is all. There has been so much confusion about it.

Mr. GRAY: There should not be any confusion, Mr. Matthews, if you just proceed.

Hon. Mr. MANION: The only persons asking questions are you fellows.

Mr. GRAY: We are down here in the front seats.

The CHAIRMAN: I may say that I may be rather dull, but I do want to be clear on it. There are things I must have explained. That is why I am asking the question. It is not altogether clear to me yet what the procedure is. I know what you want to get at all right.

Mr. MATTHEWS: Well, I will be very glad to answer any question.

The CHAIRMAN: I am following you very well, but I do want to ask you questions occasionally if there is anything I do not understand.

Mr. MATTHEWS: After all, we are here for that purpose.

The CHAIRMAN: This particular paragraph you are now reading does not deal with immediate action. It deals with the future, if it should be, some time, wished to enlarge the scope.

Mr. MATTHEWS: You mean the one that I have just started now?

The CHAIRMAN: Page xiv, yes.

Mr. MATTHEWS: No, Col. Geary; that would be the final step in the present proposals if as and when parliament chose to act.

The CHAIRMAN: That is what I mean. Mr. Gray, I do not think, is quite as clear on it as he thought he was. This is the final step not now contemplated.

Mr. MATTHEWS: It is contemplated now.

Mr. GRAY: It is absolutely contemplated in the report.

The CHAIRMAN: No, no; it is rather a step to be taken if, as and when parliament should choose.

Mr. GRAY: Any step we may take, whether it is the first or last, requires parliament, Mr. Chairman.

The CHAIRMAN: No, the point is, as I gather it—I may be wrong; and that is why I am asking the question—from what Mr. Matthews said, this procedure dealt with in the second paragraph of page xiv of the Appendix is not the first thing you propose to do now, as part of your immediate plan.

Mr. MATTHEWS: Oh, yes, it is Col. Geary.

Mr. GRAY: Of course, to-morrow or next year.

Mr. MATTHEWS: The next step that would not be part of our plan.

Mr. GRAY: A step which does not require 250 bond issues or revaluation of physical assets, or the cumbersome cluttering up that the Minister of Railways suggested in his speech a few days ago.

Hon. Mr. MANION: I suppose that is the last word.

Mr. GRAY: No, you will have the last word.

Hon. Mr. MANION: Not around here.

Hon. Mr. EULER: You must have changed, doctor.

Mr. GRAY: My goodness, that is hopeful.

Hon. Mr. EULER: I suggest that the witness be allowed to go on.

Mr. HANBURY: Carried.

Mr. MATTHEWS: Thus far we have dealt with a brief summary of the real facts of the proposals, which is covered on pages 5 and 6 of our report; reference to the legislation and reference to the supplementing of the legislation, on page xiv of the Appendix. Now, those are the facts of the proposals. In the third place, maybe for the information of the committee, if you would care to listen further, we could give a brief summary of the complexities in any future adjustment of the funded debt in the hands of the public, which we reiterate forms no part whatever of our capital adjustment proposals. Any adjustment which might be attempted in the future in respect of the various funded debt issues in the hands of the public would necessitate taking into account six main factors. We are dealing here now with what are not in our proposals. They relate themselves to these problems referred to by Dr. Manion. There would be certainly six main factors under consideration if, as and when that day ever comes: First, the determination of the so-called "value"; secondly, the effect upon Dominion public accounts; thirdly, the effect upon the published accounts of the National System; fourthly, adjustment of interest rates and the simplification of capital structure which might be expected to take place over the next decade or two through the automatic processes of refunding or redemption; fifthly, unguaranteed issues; and sixthly, but not the least important, is the heavy expenditures of money in the past studies of funded debt in the hands of the public.

If I remember correctly, Dr. Manion made reference to the fact that the Royal Commission in 1932 and the late Sir Henry Thornton in 1931, had rendered opinions on the time not then being opportune to make capital adjustments. May we respectfully remind the committee that the report of the Royal

Commission was rendered in September, 1932, some two and a half years ago; and at the same time they recommended that the matter of the capital structure should have the early attention of the Board of Trustees. May we further draw the attention of the committee to the fact that the Thornton recommendations of 1928-29 originally anticipated, amongst other things, the issuance of first and refunding mortgage bonds on the strength of the net earnings, apart from Dominion guarantees. Obviously in the intervening years the original proposals lost much of their force and practicability; and with all due deference, we find it difficult to see where this change in conditions between 1928 and 1931 has any vital bearing on the present proposals which have for their main objective the elimination of the duplication of liabilities and losses in the published accounts of the Dominion and of the National system. If it is the wish of the committee, we would be glad to give further details on these six points.

The CHAIRMAN: Yes.

Mr. MATTHEWS: First on the determination of so-called value.

Mr. GRAY: I should like to hear that.

Mr. MATTHEWS: These are the problems that would be involved in an adjustment of this monstrous funded debt of the national system.

Mr. GRAY: Let me understand. This is not suggested in your recommendation.

Mr. MATTHEWS: Definitely no. This is no part of it in any way; but if it is the wish of the committee we will be glad to give you as much information on that side of the question as we can, information that may be of value at some future time.

Mr. MACMILLAN: How long is it going to take?

The CHAIRMAN: Is it in your report at all?

Mr. MATTHEWS: No. It will take about 6 or 7 minutes.

Hon. Mr. EULER: Those complications have nothing whatever to do with your written suggestions.

Mr. MATTHEWS: No.

Hon. Mr. MANION: Let him elaborate the complications.

Hon. Mr. EULER: They are not in his report?

Hon. Mr. MANION: They are here.

The CHAIRMAN: No, but later procedure would involve consideration of this.

Mr. GRAY: Exactly.

Mr. MATTHEWS: Yes, Col. Geary.

The CHAIRMAN: Following this procedure if desired.

Mr. MATTHEWS: That is right. If it ever came to the point where you gave serious consideration to those things, then these complexities and problems would have to be met. I think we left the impression definitely that in 1922 and 1923 Mr. D. E. Brown made a very extensive study of this funded debt situation.

Hon. Mr. MANION: Who is Mr. Brown?

Mr. MATTHEWS: Mr. Brown came into the picture first on the Grand Trunk Board arbitration, then he came on to the railways after amalgamation, Dr. Manion, and later on as is familiar to the committee, I think Mr. Gaston was brought in and spent several years—

Mr. MACMILLAN: Henry Gaston?

Mr. MATTHEWS: George Gaston.

Mr. MACMILLAN: The man who got \$50,000 to \$75,000 a year?

Mr. MATTHEWS: Yes, that is the man.

Hon. Mr. MANION: \$62,000 to be correct.

Mr. HANBURY: In that connection, Mr. Matthews, was that the salary he received or did he have to pay some staff out of that?

Mr. MATTHEWS: Well, I think he maintained a staff in New York.

Hon. Mr. MANION: No, he did not, not out of \$62,000. All he paid was income tax like the rest of us.

Mr. BEAUBIEN: Sommerville got \$32,000.

Hon. Mr. MANION: What has that got to do with this committee?

Mr. BEAUBIEN: What has the other got to do with this committee?

Hon. Mr. MANION: Somebody asked who the gentleman was.

Hon. Mr. EULER: I would respectfully suggest all these things have nothing whatsoever to do with the concrete suggestion made by the auditors.

The CHAIRMAN: The question was asked as to the identity of somebody and it was answered.

Mr. MATTHEWS: Is it the wish of the committee—

The CHAIRMAN: Yes.

Mr. MATTHEWS: Is it the wish of the committee to have me elaborate at all upon those six complexities that would be involved if you have the contemplated changes?

Hon. Mr. EULER: Mr. Chairman, I do not want to interrupt, but I am more or less responsible for having Mr. Matthews explain as he has. My point, entirely, was this: I wanted Mr. Matthews to explain that those complications had nothing whatsoever to do with his proposed recapitalization. He has said that it has nothing to do with it, and I do not see any special purpose being served in discussing the adjusting of those complications at a much later date, and which have nothing whatsoever to do with his present plan. For my part I do not want to hear it at all.

Hon. Mr. MANION: It may have nothing to do with the present plan but it has something to do with the whole question of recapitalization.

The CHAIRMAN: We have Mr. Matthews here on this, and I think we had better hear what he has to say.

Hon. Mr. EULER: It is not on the plan suggested by him.

Hon. Mr. MANION: You called him and you might at least let him answer.

Hon. Mr. EULER: I am not objecting, but it does not pertain to this plan.

The CHAIRMAN: Will you conclude those 6 or 7 minutes?

Mr. HANBURY: Let him talk as long as he can give us valuable information

The CHAIRMAN: Will you proceed?

Mr. MCGIBBON: It is information we want.

The CHAIRMAN: Let us have it.

Mr. MATTHEWS: We are prepared to give you as much information as we can on the subject. Is it the wish of the committee—

The CHAIRMAN: I have said that Mr. Matthews, will you proceed?

Mr. MATTHEWS: First, on the question of the determination of values; in measuring value we must take into account both cost value and utility value. Normal cost value will deal with cost of original construction, and current cost value will deal with cost of reproduction; utility value will deal with many things, not merely the earning power expressed in an interest return on the capital invested, but also usefulness as an agency of government. As such, the railway has functioned in a pioneering way, opening up for development sections of the country, without expectation of direct return on the capital, but much more surely looking for additions to the developed natural resources and capital wealth of the nation. The political and economic advantages proceeding from confederation find some portion of their purchase price in the capital cost

of the railway. The farming industry is enabled to transport its products to the seaboard, notwithstanding the great distances involved, at rates which enable these products to compete with other peoples more favourably placed as regards inland mileage. In fact the entire national life has been, and still is involved in its every phase and this usefulness must be a consideration when we speak of the value of our railways.

Who then shall say what is the money value of the railway owned by and operated for the people of Canada? Original costs are unknown, and it is not humanly possible to find what they were. Reproduction cost might be computed by employing a corps of engineers at great expenditure of time and money, but that cost varies as the value of money varies. John Stuart Mill compared normal values to the level of the sea and current values to the movement of the waves constantly upsetting this level. A value fixed to-day must be recomputed tomorrow. Even if we ignore all utility values (I do not think we should), except as may be represented by capitalizing the earnings available to pay an interest return on the capital invested, we meet insuperable difficulties. That value varies from year to year with the fortunes of the enterprise.

Value, based on the results of 1931 to 1933, would have been zero. In 1928 it would have been in excess of the par value of all funded debt in the hands of the public. From 1921 to 1928 the value increased by over a billion dollars, but that value since disappeared as a result of the business depression. It is an elusive base on which to build a capital structure. Someone will argue we should take the average over a period of years. This would produce a capitalizable value on the basis of the 12-year period 1923-1934, of say half a billion dollars or less, but nobody will accept so low a figure. Potential earning power is then introduced. We can only guess about the future, but assuming we do arrive at a figure of, say, three quarters of a billion dollars who will accept such a maximum value. We must also have in mind that no action would be taken without a public hearing, and any witness under expert examination would be forced to admit his figures were hypothetical, based on rapidly changing averages of the past and personal opinion or mere guess as to the future.

The next step is the effect upon Dominion public accounts. Such an undertaking—that is to say the adjustment of the funded debt in the hands of the public, as we have said before—carried to its logical conclusion, would involve either the direct assumption of a part of the present railway funded debt by the dominion or the payment of an annual interest subsidy to the national system on the basis of the national needs of Canada as distinguished from railway operations of a purely commercial nature.

The next problem would be the effect upon published accounts of the national system. We do not see how it would be practicable to leave out of the railway published accounts any of its outstanding securities in the hands of the public. They are all valid and legal obligations to the public of some company comprised in the Canadian National system. The balance sheet of the railway system includes a complete and correct presentation of all its liabilities to the public. There is nothing to be added or deducted. Public confidence in the railway accounts would be destroyed if important liabilities to the public were to be omitted. Whatever may be said about the railway situation no charge has ever been successfully made that the railway accounts have not at all times presented the facts. The difficulty since the inception of the national system has been the inherent corporate accounting complexities on the one hand and an unbalanced governmental capital structure on the other.

No. 4: The reduction of interest charges due to the public and the simplification of the capital structure by way of legal amalgamation of the corporate entities comprising the national system or by way of unification of the funded debt structure are dealt with on pages 13, 15 and 16 of our report on capital structure. You will find this on page 13.

"Interest charges due the public on the dominion guaranteed issues can only be reduced by refunding at lower rates or by redemption through government financing in the capacity of shareholder along the lines already undertaken by the government."

Then, on page 15 and page 16, you will find the following;

"the centralization of corporate control by the dominion through one holding company is already embodied in our capital adjustment proposals."

We unreservedly favour the simplification of the capital structure of the national system as far as at all practicable, with the potential reduction in accounting and other costs. The difficulty, however, lies in the legal and other problems arising as a result of the diversification of public holdings of securities in the numerous constituent companies of the system and also the international complications caused by state laws."

It should be borne in mind, nevertheless, that a substantial unification of the funded debt structure should automatically take place over the next decade or two through the process of refunding issues in the name of the parent corporation, Canadian National railway company, and through redemption either at maturity or under the callable clauses of the numerous securities of the national system outstanding in the hands of the public.

The fifth matter for consideration is unguaranteed issues, which is a delicate subject. That would be purely a question of government policy.

Hon. Mr. EULER: Leave that to the next government.

Mr. MATTHEWS: There is, for instance, the consideration of whether a line is strategic or not, and so forth. As a matter of record the unguaranteed securities are \$210,000,000; they would have to be considered separately from the guaranteed issues. Now, with regard to the sixth point, we should say this, repeating what we said before, that the late Mr. D. E. Brown, who as I have mentioned here, was formerly on the Grand Trunk arbitration and later came into the Canadian National system, made an extensive survey of the funded debt question and that survey was followed in due course by a further survey by Mr. Gaston over a period of several years. It has been estimated that some \$300,000 or \$400,000 was spent on these studies. I should like to read to you three or four excerpts from the Thornton report, based largely on the Brown and Gaston surveys.

Mr. McGIBBON: Did Mr. Gaston ever make a report?

The CHAIRMAN: No.

Mr. MACMILLAN: Did Mr. Gaston ever make a report?

Mr. MATTHEWS: It came in through the Thornton report.

Mr. MACMILLAN: He never made a report to this committee?

Mr. MATTHEWS: Not to this committee so far as I have knowledge.

Hon. Mr. MANION: Sir Henry Thornton made a report to the late government, the report to which I referred the other day. It was prepared, I understand, by Mr. Gaston, the gentleman of whom we have been speaking. It was submitted to the Minister of Railways either at the end of 1928 or the beginning of 1929 but never acted upon.

Mr. MACMILLAN: Which minister was that?

Hon. Mr. MANION: Mr. Dunning.

The CHAIRMAN: I think it was mentioned in the House.

Mr. MATTHEWS: The Thornton report on page 2 says:—

While the above activities—and they were referring to the matter of earnings, etc.—were visible and understandable to even a casual observer, there was undertaken almost simultaneously a more difficult work, which,

while less apparent, was of outstanding importance; that is to say, a comprehensive study and survey of the companies comprising the Canadian National system, especially in respect to their financial structures. Now may I specially mark this:—

As this work progressed, the complexity of the situation and the magnitude of the task became vastly greater than originally suspected. On page 3, it gives an idea of some of the problems that years ago have been studied in detail and found to have been impossible of precipitate change in the funded debt, no matter how desirable such a change would have proven to be from the standpoint of both the National system and the Dominion.

Some of these carried fixed interest, others were income securities; some were guaranteed by the government and others were not; some were guaranteed by the provinces, others not; some had fixed maturity dates, others were perpetual; in some cases entire issues, and in others parts of issues, had been pledged and repledged as collateral to notes and bonds.

Of the outstanding mortgages, deeds of trust, or statutory charges, some were a charge on certain definite property of the railway, while some were not. These did not in all cases cover contiguous properties, the same mortgage often covering properties separated by many miles.

On portions of the railway there were as many as eight different mortgages. They varied in priority on each of the several properties, had different conditions, and as stated above, secured bonds of varying maturities, rates of interest and tenor. The condition above described, while largely the result of circumstances, was what the present administration found when it came into being and what it has been struggling to unravel ever since.

A survey of the outstanding mortgages or statutory charge securities has been made and a chart prepared showing the exact situation with regard to each, their varying terms, maturities, relative priorities and the conditions of the guarantee, if any, so that at the present time there is available complete information relating thereto.

The reason we read these excerpts from the Thornton report is to indicate to you that all possible study with any hope for productive results has already been made; a great deal of money has been spent by the Canadian National and in turn by the country on these meticulous examinations into this question of funded debt; but again we emphasize that these problems are not in any way related to our proposals and in our opinion offer no justifiable reason for withholding parliamentary action on the correction of duplicated liabilities and losses.

Hon. Mr. EULER: That is the point.

The CHAIRMAN: Is that all?

Mr. MATTHEWS: Nearly all. We would like to refer to this point: Dr. Manion has made reference to the fact that our proposals are not new. We have surely made this abundantly clear: first, our report on the financial accounts, pages 2 and 3, will bear repetition;

Section 13 of the Canadian National-Canadian Pacific Act, 1933, requires the auditors in their annual report to parliament to call attention to any matters which, in their opinion, require consideration or remedial action. We conceived it to be our duty under this Act to do what we could to clarify a difficult and involved question by co-ordinating the facts as we knew them, and bringing them together with remedial proposals to the notice of parliament in order that parliament might take whatever action it, in its wisdom, saw fit, in view of the widespread misconception of the situation in the mind of the public of Canada and investors in Great Britain and elsewhere.

We would point out that the matter of the capital structure has been the subject of several studies involving a large expenditure of time and money in the past; as, for instance, the investigations under the Board of Audit Act in 1925, and the preliminary report of the late Sir Henry Thornton in 1928 as a result of the Gaston surveys. Considerable data have also been prepared and made available for our use by the financial and accounting officers of the railways at various periods during the last five years.

No official action was taken as a result of these investigations, and it was not until the passing of the Canadian National-Canadian Pacific Act, 1933, that the opportunity presented itself to us as your auditors of reporting direct to parliament on this matter.

In the report on the capital structure on pages 24 and 25 we make this statement:—

For the fuller information of parliament and in elaboration of the recommendations made in this report we attach, as an appendix hereto, certain explanatory details of the capital structure which have been selected by us from agreed data and recommendations prepared over a period of years by the financial and accounting officers of the railways. During our studies of this question we have also drawn upon the data and certain of the recommendations made by the investigators appointed under the Board of Audit Act in 1925 and upon certain of those of the late Sir Henry Thornton in 1928, in so far as we are in agreement therewith. We have further drawn upon the report of the Drayton-Acworth commission of 1917, the findings of the arbitration boards of 1918 and 1921; the report of the Royal Commission on Railways and Transportation in Canada, 1931-32; statutory acts of the Dominion, and various other sources of information and authority.

In short we have utilized the studies and governmental commission deliberations and findings during the last twenty years in conjunction with our own knowledge of the situation to make a report to parliament embodying recommendations, the carrying out of which, in our opinion, is both practicable and needful and in the best interests of both the National system and the Dominion at this time.

In conclusion we are persuaded that we would be remiss in our duty if we failed to make reference to the existing unsettled financial conditions of Canada as in other countries. Uncertainties and obscurities both corporate and governmental create misconceptions of fact; misconceptions create doubt; doubt engenders lack of confidence; lack of confidence, both national and international, ultimately attacks credit. When credit is affected, increased cost of financing is the inevitable result. For this latter reason we urge upon the committee the impartial consideration at an early date of this whole question of capital structure of the national system as it deals with duplicate liabilities and losses.

Hon. Mr. EULER: Mr. Chairman, the information which Mr. Matthews has given, entirely apart from the practical recommendation he has made, is very interesting but, to my mind, is more or less academic at this point because we do not intend to deal with these complications at this time, and it is not necessary to do so in order to carry out his definite recommendation. To me his recommendation is very simple and, to my mind, it is desirable to accept or at least to consider it very very seriously because it will do away with this duplication of the billion and a half dollars and remove the misconception that is in the minds of the public.

There are then just the two points upon which I desire information—I am speaking for myself, of course—one has been cleared up so far as Mr. Matthews is concerned and it is that there would be no great difficulty from an accounting point of view, if I may put it that way, in carrying out his simple suggestion.

There is some difference of opinion, as voiced by the Minister of Railways, so far as the legislative necessities of the case are concerned; he seems to think it would require quite complicated legislation. Now, I would like to ask—I am not trying to dispose of Mr. Matthews as someone else may want to ask him questions—but I would like to ask with regard to the legislative side of the question what is the opinion of the chairman of the board of trustees as to the legislation that would be required to carry out the suggestions of the auditors, and, for my part, I would like him to confine his answer entirely with regard to the suggestion that has been made by the auditor dealing with the writing off of that billion dollars and the method of taking care of the other \$800,000,000?

Hon. Mr. FULLERTON: We have never given the matter careful study; that is a legal situation.

Hon. Mr. EULER: You have read the report?

Hon. Mr. FULLERTON: Yes. Evidently the lawyers for the crown think it is a very complicated thing. I must confess I do not agree with that; I think it is a rather simple thing. I think legislation could be drawn in a very simple bill to bring about the results required. If we were going into all these complications in connection with subsidiary companies that would be another matter, and a very complicated matter; but where you are simply dealing with the matter as between the government and the Canadian National Railways I cannot see—I may be wrong; I would not like to give a definite opinion without study, but, personally, at the moment I cannot see any very great complication involved.

Hon. Mr. MANION: May I say a word. I did not suggest—at least I did not mean to suggest that the type of legislation that would have to be brought in would be so complicated—but what I did suggest was that the consideration of all the issues involved require so much study to work out the proper legislation that it could not be done in the short time at our disposal.

Mr. HANBURY: What do you mean by “the short time at our disposal”; do you mean at this session?

Hon. Mr. MANION: Yes, at this session. What I wish to imply is that the whole question is so complicated that it requires a great deal of legal study to know just what legislation is involved. Once the legislation is worked out we can pass that legislation in the House.

Hon. Mr. EULER: May I ask a question of the minister? I am dealing now entirely with a suggestion made by the auditors. Does the minister think that if that suggestion were acceptable it would require a great deal of legislation?

Hon. Mr. MANION: I do not know. I was not dealing only with the suggestion made by the auditors because I did state definitely that I did not think this should be done in two bits, so to speak. I think if we were going to deal with the matter it should be properly cleared up, and I think if I ever had proof that I was right, in listening to Mr. Matthews I got that proof; because he showed, if he showed anything, the many complications of all kinds in the whole question of recapitalization.

Hon. Mr. EULER: With regard to his suggestion, I am afraid, with all due deference to Mr. Matthews, that he has obscured his own suggestion by the further discussion of things which are not immediately to be considered.

Hon. Mr. MANION: We have heard Mr. Matthews, and Mr. Roberts of the Finance department is sitting in the rear of the hall, and he comes here representing the Finance department. He is one of the experts from the Finance department, and I think he is a legal man—he shakes his head, so I am wrong in that—he did not know until about ten minutes ago that I wanted him, but I asked my deputy ten minutes ago to ask Mr. Roberts if he would have any objections to making a general comment on this whole question and he said he would not. Would the committee object to hearing Mr. Roberts?

Mr. GRAY: I would like to ask a few questions of Mr. Matthews first. I agree with Mr. Euler that what we have before this committee is the definite report of Touche and Company as presented March 22, 1935, and before we get away from that I would like to ask Mr. Matthews as to whether or not, in his opinion, we had strayed from that report when Dr. Manion, in his suggestion of the day before yesterday, stated that this whole scheme would require dealing with some 250 different bond issues and mortgages? Does your suggestion in any way deal with that matter?

Mr. MATTHEWS: Not in any way.

Mr. GRAY: Secondly: Dr. Manion asked would the basis of writing down be on the physical valuation or replacement valuation or earning power and matters of that kind which you have discussed under your six points; does your report deal in any respect with that?

Mr. MATTHEWS: Not at all.

Hon. Mr. MANION: No, but at the same time he has pointed out that there was much dispute in regard to that.

Mr. GRAY: May I take it, Mr. Matthews, that your report merely deals with the duplication which you feel is a first step, and a very definite step, which we may take in order to rid the public mind of misconception which you believe the public has; is that correct?

Mr. MATTHEWS: That is correct.

Mr. GRAY: May I ask this further question? In an address given by Mr. Beatty of the Canadian Pacific Railway at Toronto on the 9th of April before the Board of Trade at Toronto—perhaps you have had an opportunity of seeing that report?

Mr. MATTHEWS: Yes, we have.

Mr. GRAY: Do you agree with Mr. Beatty's statement that he has examined these proposals with great care—I am reading from the Montreal Star of April 10th—Mr. Beatty had examined these proposals with the greatest care—that is your proposals in connection with the report on the debt I have mentioned—and they were entirely unreal. Now, having studied Mr. Beatty's speech in which he states you have perverted the facts, I would like to have your comments on it?

Mr. MATTHEWS: Yes. He has made more definite statements than that, and this is the first opportunity we have ever been given to reply to Mr. Beatty.

Mr. GRAY: I think it is time that somebody did reply.

Hon. Mr. MANION: Mr. Beatty made his speech in public; why not let Mr. Matthews reply to him in public? I do not know why this committee should deal with Mr. Beatty. I have not even read the speech.

Mr. GRAY: Dr. Manion, I am amazed at you for making a statement of that kind.

Hon. Mr. MANION: I am amazed at some of yours.

Mr. GRAY: And that has been mutual for some time. I do not propose to be muzzled in this committee by any suggestion by the Minister of Railways. Mr. Beatty has gone up and down this country from coast to coast, and I hold in my hand some five or six speeches, covering a period of some months, in which he stated that, while the co-operative features of the bill had been introduced, he would go on and pretend that they were co-operating, but he had no thought that there would be any real purpose accomplished. We have from the chairman of the board the statement that, while they co-operated with respect to certain matters dealing with the pooling of trains from Montreal to Toronto and from Ottawa to Toronto, there were certain misconceptions; and if you can take anything from the statement of the chairman of the board you can only take

this, that they entered into that agreement anticipating that certain other arrangements would be made with respect to Toronto and west to Chicago, Detroit, Sarnia and Windsor.

I am going to read what Mr. Beatty said, as reported in a pamphlet dated May 22, 1934. He goes on to say,—

when the inefficiency of co-operation is clearly established we do not propose to leave the Canadian Pacific open to the charge that by its attitude it did anything to wreck the plan.

Now if Mr. Beatty is going to be allowed to go up and down from one end of this country to the other making the statements that he has made, addressing Boards of Trade and Chambers of Commerce and Canadian Clubs, asserting the statements that have been made by our auditors are a perversion of the facts; and going even further than that in some of the statements he has made, and if we are not to be allowed to hear from our auditors—that is a matter Mr. Beatty is dealing with, it is not any statement that I have made or any statement that Mr. Matthews has made—I think our auditors should be heard in reply.

Hon. Mr. MANION: We will save time by going ahead, I have no objection.

Mr. GRAY: I propose to finish what I have to say.

The CHAIRMAN: Just a moment, Mr. Gray; the matter of your going on is not in question, there is no objection to that. As I have heard it, Dr. Manion has asked whether Mr. Matthews should be asked this question. Now, Mr. Gray goes into a long effort on something that is not apparent to me as being pertinent. You have not heard anything by way of objection from the chair, Mr. Gray.

Mr. GRAY: I have not had any objection from you, Mr. Chairman; and I think the Chairman would be one of the first to welcome the facts.

The CHAIRMAN: I am neither welcoming nor retarding, I just want to get on.

Mr. GRAY: I am stating that I am surprised that the Minister of Railways should state that we should not have an answer given by the witness we have on the stand, in view of the fact that he represents the official agency concerned up to the time this report came to us; because, in the House of Commons, the Minister of Railways stated that up until the time they actually ceased as auditors Touche and Company were still our representatives as far as this committee is concerned, and the representatives of the Canadian National Railway.

The CHAIRMAN: Mr. Gray, suppose we get on.

Hon. Mr. MANION: That would not be good politics, to get on; Mr. Gray wants to get the political side of it out through the country. That is what it amounts to.

Mr. GRAY: If I am doing that I am only following the example set by the minister.

Hon. Mr. MANION: I am not aware of just who ever agreed with Mr. Beatty. May I say that I have a number of times disagreed with Mr. Beatty. The only man I know of who agrees with Mr. Beatty on amalgamation, or unification, is one of your own party, not myself.

Mr. GRAY: I want to complete my statement, Mr. Chairman.

The CHAIRMAN: All right. Now, gentlemen, let us have no interruptions so that Mr. Gray may complete his statement.

Mr. GRAY: And that is this: If Mr. Beatty is to be allowed to make these uncontradicted statements—

Hon. Mr. CHAPLIN: Why don't you muzzle him?

Mr. GRAY: You can't muzzle him because he goes about in the guise of a taxpayer, for that reason you can't check him apparently. I may say, also,

that he has his henchman who sits daily in this committee; and perhaps he has that right as a shareholder; who carefully makes note of anything that he thinks will be of use. He is in the room right at the present time, and I would ask Mr. Apps to take down this particular statement that I am making. Then I say this, that it is time that this committee asked—because we cannot do more than that—asked Mr. Fullerton as Chairman of the Board of Trustees to go up and down this country from one end of it to the other and give a true statement of the facts as we understand them here in the committee. That is why I am going back again to this “perversion of facts”, as Mr. Beatty has stated; if that is so then we are entitled as shareholders to know it. And now I come back again to my first point, namely to ask Mr. Matthews to give an answer to Mr. Beatty with respect to what he has stated were “perversion of facts” and thus destroying the whole picture contained in the report which we have before this committee.

Mr. STEWART: Mr. Chairman, I hold no brief for Mr. Beatty, or the action he has taken in this regard. I do say that I will take objection to the statement made by the previous speaker when he says that his (Mr. Beatty's) action in this matter has been unethical. I fancy Mr. Beatty is as good a Canadian as any man who sits in this committee; and in the light of the facts as he sees them he has the right to express his opinion to the people of Canada. I do not know whether his views are correct or not; but I do certainly object to any man criticizing a man of Mr. Beatty's calibre, who in my opinion is trying to give the people of Canada an insight into the railway situation as he sees it. As far as I am personally concerned I do not think we should have a reply from these auditors with regard to this matter. If they want to reply to Mr. Beatty let them do it at some other time and place.

The CHAIRMAN: This is not a general reply; it is a reply to something that Mr. Beatty is supposed to have said about him.

Mr. STEWART: He has made addresses to Boards of Trade and Canadian Clubs, he goes there at their invitation and tells them about the railway situation. If the statements he makes are not correct then it is up to some other person in some other place than this committee to contradict them, or to argue against the statements which have been made.

The CHAIRMAN: It is not my view that there should be any controversy allowed between these two; but it is reported—I don't know what he is referring to—that Mr. Beatty made a certain statement—

Mr. GRAY: I cited the report of Mr. Beatty's address to the Board of Trade, as reported in the Montreal Star.

The CHAIRMAN: He is reported as stating something about a statement by these auditors being a perversion of facts.

Hon. Mr. EULER: It is only fair that he should be allowed to reply.

The CHAIRMAN: I think on that point it is quite clear.

Mr. McMILLAN (*Saskatoon*): Before you proceed, I would like to ask the auditor if his long resume, not in reference to his report but in reference to other matters which he covered, is predicated upon a report made by Mr. Gaston to Sir Henry Thornton. You refer to it right along in your report, isn't that true?

Mr. MATTHEWS: Not that I know of. The only statement that we have had occasion to take special note of in connection with Mr. Beatty—

Mr. MACMILLAN (*Saskatoon*): I am not speaking about Mr. Beatty, I am speaking about Mr. Gaston and the report he made to the late Sir Henry Thornton.

The CHAIRMAN: Mr. MacMillan has asked you in this report which you read is based upon the report made to Sir Henry Thornton by Mr. Gaston.

Mr. MATTHEWS: This report here? Oh yes; it was the result largely but not altogether of Mr. Gaston's studies.

Mr. GRAY: Is your report based on that?

The CHAIRMAN: Is your report based on studies made by Gaston?

Hon. Mr. MANION: He said it was.

Mr. GRAY: No he doesn't, he says it is based on the Thornton report.

Mr. MATTHEWS: Our report is based upon our own conclusions in conjunction with references that we have already referred to in some detail.

Mr. GRAY: Hear, hear.

Mr. MATTHEWS: We have naturally referred to other sources where there was any information, any matter of opinion, any arbitration or governmental commission. We lay no claim to discovering something new, but we have endeavoured as we said before to coordinate the facts in a way that parliament might be in a position to deal with them.

Mr. MACMILLAN (*Saskatoon*): And I suppose you did take into consideration the sources from which that information came.

Mr. MATTHEWS: Let me say this definitely, that as far as the Thornton recommendations are concerned they contemplated the legal consolidation of the system, they contemplated the issue of income bonds; they contemplated the issue of first and refunding mortgage bonds without the guarantee of the Dominion. None of these are in our report.

The CHAIRMAN: You might answer the question categorically; it only needs yes or no.

Hon. Mr. MANION: Yes; Mr. Matthews stated in his remarks that he had taken into account the report of Mr. Gaston—which was Sir Henry Thornton's report—and he said to my friend Mr. MacMillan a moment ago that they had based their report on that.

Mr. MATTHEWS: Would you just allow me to read what we said.

Mr. GRAY: That is not my understanding of it at all, Dr. Manion.

Hon. Mr. MANION: Mr. Gray put the words into your mouth as far as I can see.

Mr. GRAY: Thanks.

Mr. MATTHEWS: We actually said: "During our studies of this question we have also drawn upon the data and certain of the recommendations made by the investigators appointed under the Board of Audit Act in 1925, and upon certain of those of the late Sir Henry Thornton in 1928, in so far as we are in agreement therewith."

Hon. Mr. MANION: That is clear enough.

The CHAIRMAN: That is exactly what was said before.

Mr. GRAY: Quite.

The CHAIRMAN: That is just what Mr. Matthews said a few minutes ago.

Mr. GRAY: Might we get back to my original question?

Sir EUGÈNE Fiset: Pardon me, Mr. McGibbon wants to ask a question.

Mr. MCGIBBON: I would like to ask Mr. Matthews to tell me about this proposal; is it not a fact that the governments of this country have invested something like \$404,000,000 in the railways?

Mr. MATTHEWS: In the Canadian government railways.

Mr. MCGIBBON: Yes; and have they not also loaned the railways of this country something over \$606,000,000?

Mr. MATTHEWS: Yes.

Mr. MCGIBBON: And, have they not guaranteed bonds to the public of about \$1,280,000,000?

Mr. MATTHEWS: The Dominion government have guaranteed something under a billion dollars.

Mr. McGIBBON: How are you going to write off a billion and a half and be fair to the taxpayer of Canada; you have \$1,280,000,000, \$404,000,000 and \$600,000,000—there is over \$2,000,000,000.

Mr. MATTHEWS: Government advances are already written off, Dr. McGibbon, that is into the net debt of Canada.

Mr. McGIBBON: It is written off in the fact that we have never paid any interest.

Mr. MATTHEWS: It is written off into the net debt of Canada, and it is already represented in the present bonded indebtedness of this country, less what has been raised by taxation; but the point at issue is, the duplication in the published accounts of the national system.

Mr. McGIBBON: Suppose it is duplicated in the published accounts, the fact is so far as the railway is concerned that the people of this country had an investment of \$1,280,000,000 of public money; there is \$600,000,000 of railway loans, of which not a cent has ever been returned; and there is \$404,000,000 invested by the government—there is over \$2,000,000,000 that the country has put into the railway. Now, how are you going to write off a billion and a half of that and be fair to the taxpayers?

Mr. MATTHEWS: I am sorry, Dr. McGibbon, but we are not proposing in the presentation of the case so far as the Dominion is concerned to do anything else than have the amount of monies that have been advanced to the railways from the beginning set out very definitely as part of the record behind the net debt of this country back to the time of Confederation; and as far as writing off is concerned, on the books of the national system, the proposal would not disturb the equity of this country in the least.

Mr. McGIBBON: No, but it would give a false picture to the taxpayer; there is no question about that.

Mr. MATTHEWS: We absolutely disagree with that.

Mr. McGIBBON: Well, I have the right to disagree with you, too.

Mr. MATTHEWS: Very well, sir.

Mr. McGIBBON: If I loan a man money and he never pays it I still have the right to consider that as mine until it is paid.

Mr. MATTHEWS: But the whole of these liabilities are suggested as a definite part of this proposal to be incorporated in their entirety.

Mr. McGIBBON: But not in full.

Mr. MATTHEWS: Yes, sir, in full.

Mr. McGIBBON: The \$2,000,000,000?

Mr. MATTHEWS: Every cent of loans, interest and contributions. If you will please read page 8—that is one page of our report we find a good many people ignore entirely.

Mr. McGIBBON: How are you going to write off a billion and a half then; that would make the debt over \$3,500,000,000.

Mr. MATTHEWS: There is nothing of the \$1,046,000,000 to be written off in the Dominion accounts.

Hon. Mr. MANION: I should like to have time to hear Mr. Roberts before 6 o'clock.

Mr. GRAY: I should like to have my question replied to.

Mr. MACMILLAN (*Saskatoon*): I should like to hear Mr. Roberts.

Hon. Mr. MANION: Let this witness finish with the question asked by Mr. Gray.

The CHAIRMAN: That is as to some statement said to have been made by Mr. Beatty.

Mr. GRAY: As reported in Toronto when he was speaking before the Board of Trade on April 9th, in which he referred to a statement by the auditor to be a "perversion of facts," and whatever else he said in addition.

Mr. MATTHEWS: Yes. Mr. Beatty made a statement concerning the adjustment proposals on the 22nd of May, 1924; that the capital adjustment proposals, and my firm made those proposals—are "a calculated deception of the Canadian taxpayer" and "a distinctly dishonest form of bookkeeping." Now, Dr. Manion, you have said that we can make a public speech in reply to Mr. Beatty.

The CHAIRMAN: Well, will you?

Mr. MATTHEWS: You must surely know that, as auditors, we will not do so. We can only make a reply in this committee.

Hon. Mr. MANION: I do not see why not. However, I do not want to argue that. I thought you, just as any other citizen, could make a public statement.

Mr. MATTHEWS: As auditors, never.

The CHAIRMAN: Make your comment, then.

Mr. MATTHEWS: Yes. Our answer to that statement and particularly to this charge of improper motive—

The CHAIRMAN: Oh, we have heard it.

Mr. MATTHEWS: —these are somewhat extravagant—

Mr. POWER: Just a minute.

Hon. Mr. EULER: Give him a chance. He is being attacked.

Mr. POWER: You have no right to interject, Mr. Chairman, in his evidence any more than we have.

Hon. Mr. EULER: Go on, Mr. Matthews.

Mr. MATTHEWS: As I was saying, "these are somewhat extravagant and illogical charges to make against a plan which contemplates the correction of the railway accounts by the elimination of capital stocks declared by arbitration to be worthless, the adjustment of the capital structure to a basis more in accordance with realities, the clarifying of the situation regarding duplicate liabilities and losses as between railways and public accounts and concurrently the reclassification of public accounts in such form that the accumulated cost to Canada of the National System would be shown in total and in perpetuity.

We would point out that the view that a capital adjustment is necessary was also definitely expressed by the Royal Commission on Railways and Transportation in Canada, 1931-2, which Commission was composed of distinguished Canadians and outstanding railway executives of Great Britain and the United States. The three following excerpts are from the report of the aforementioned Royal Commission in respect of the National System capital structure:—

- (1) There is no reason to believe that the capital sum will ever be repaid or that it will have at any time a realizable value. (Page 14).
- (2) It is obvious that on this basis of earnings the capital liabilities would require a very drastic writing down. (Page 30).
- (3) This Commission is of the opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National system must be regarded as lost and that its capital liabilities should be heavily written down. (Page 30).

The principle which has led us to place before parliament these capital adjustment proposals is far from any desire to suggest a form of bookkeeping which would deceive the Canadian taxpayer. We have been actuated by the same motives as those which prompted the Royal Commission to make similar recommendations.

Again in a recent address on the 9th April, Mr. Beatty is reported to have made a statement regarding these proposals for which proposals we are responsible. He is reported as saying:—

As far as you and I are concerned, "writing off" National Railway debt is merely a transfer on our books. We can "absorb the loss," but only in the sense that by perverting facts we can make railway debt appear as something else. Are we wise in engaging in devices intended to make us forget it? All that the suggestion for the issue of stock would accomplish would be to say that, the government of Canada still remaining responsible for every cent of the losses of the system, and meeting these year after year, in another exceptional year such as 1928, the treasury, with great publicity, might receive a small dividend cheque in place of a return of advances for deficits, or of payments on account of interest overdue. If it is to this foolery that we are to resort to prove the success of public ownership, then I fear that public ownership will not commend itself to men of common sense. Writing down of this debt would be, in plain words, no more and no less than a statement that the people of Canada are to be invited to attempt to forget.

If any of the debt due the government be taken out of the government's railway account, where is it to be put? Is it to be charged as part of the cost of the war? Or to the debit of our legislative expense? Or as a part of the civil administration of the country? It was wrong to distort or gloss over past errors. The Canadian National debt could be written down to one dollar provided every statement of its finances plainly indicated that this railway policy added three billions to the financial obligations burdening Canadian citizens.

This reported address in the *Montreal Star* of 9th April, indicates that once more Mr. Beatty, besides again making imputations, has entirely ignored the fact that far from attempting to suggest anything that would make the people of this country forget, there is again the definite presentation and recommendation that the total cost of this so-called railway experiment be incorporated in public accounts and there be kept forever. Again, Mr. Beatty refuses evidently to accept that part of the report where we attempt to deal with the matter of duplication of liabilities and losses; and I ask any gentleman in this committee to-day if he can find a corporate precedent anywhere on the face of the earth where the parent corporation, in making good the losses of a subsidiary, and writing those losses off to its own profit and loss account concurrently requires the subsidiary to maintain them as capital liabilities. Where, anywhere, is there a corporate precedent for such an unsound practice? It cannot do other than create a false impression of any enterprise as a whole. Whether it be a company or a government is immaterial. The ultimate damaging effect is the same. Those facts Mr. Beatty and others refused to face; and in refusing to face them, they involve my firm in imputations of motive that are not according to the facts. We make that statement without any fear of contradiction from any source whatever. We invite the reading of our report but we ask that there be not interjected things that are not there, and that important things that are here be not left out.

The CHAIRMAN: Is that everything you wanted to say, Mr. Matthews?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: I should like to have Mr. Roberts, if the committee will permit it. I should like to have him heard from the government standpoint. I mean, government in general; I do not mean this government particularly.

B. J. ROBERTS, recalled.

Mr. ROBERTS: Mr. Chairman, I think the question is as to whether or not the writing down of these various loans amounting to \$600,000,000, which have been made from 1911 onwards would involve any complication.

Mr. HEAPS: Is that the question, Mr. Chairman?

Hon. Mr. MANION: Yes, I should like to have Mr. Roberts discuss it in a general way.

Mr. HEAPS: A billion and a half?

Mr. HANBURY: No, \$600,000,000.

Mr. ROBERTS: \$600,000,000 standing as loans.

Mr. MCGIBBON: \$600,000,000 loans.

Hon. Mr. MANION: There is nearly \$400,000,000 interest.

Mr. ROBERTS: \$672,000,000 standing as loans. These loans have been made under various authorities of parliament, by statute and by vote, which called for the tendering of security, and in some cases that security may be found to be underlying certain outstanding securities which are now held by the public and which are not guaranteed. Ever since the Canadian National Railways have been in operation, in any of the financial changes that have taken place we have endeavoured to keep the security of the government of Canada as intact as possible, because the system is not an integrated system. There are some securities involved in these loans perhaps even for deficit purposes—yes, I will say even for deficit purposes, which, if the loans are written off, and if it involved the surrendering of the security, would to some extent involve departure from that policy, in that the government would be surrendering certain securities against parts of the lines. It would have the effect, perhaps, of improving the security behind certain outstanding securities which are not now guaranteed. For instance, the Grand Trunk Pacific Receiver's certificates. During the period of receivership of the Grand Trunk Pacific, there was cash payment made to the Grand Trunk Pacific of \$46,000,000. We have a prime security in respect of this advance. There would be a question of policy to be considered which would lead into the rather intricate set-up of the railway capital structure; and any report to be made to the government and parliament would have to point out what would be the implication of altering the present position. That is the complication I have in mind. Just one other point—

Hon. Mr. EULER: Would you think that would impair the rights of the Dominion government, by adopting the plan suggested by Mr. Matthews?

Mr. ROBERTS: No, but I think there are questions of policy to be considered before you start.

Hon. Mr. EULER: What policy?

Mr. ROBERTS: A question as to whether or not you are going to hand back securities which may have prior rights to certain securities outstanding in the hands of the public, which are not guaranteed by the Dominion.

Hon. Mr. EULER: I didn't understand it was a matter of policy at all.

Mr. ROBERTS: I think if you are going to pass legislation to wipe out a debt, naturally the security goes back, does it not?

Mr. HANBURY: No.

Hon. Mr. MANION: Let Mr. Roberts finish.

Mr. ROBERTS: I would say that was the implication. Parliament could make any reservation it liked. If you are going to wipe out a debt it would be very illogical not to wipe out the security which you took against that debt.

Hon. Mr. EULER: I would like to have Mr. Matthews answer that.

Hon. Mr. MANION: Let Mr. Roberts finish.

Mr. ROBERTS: I just want to mention one other complication. The scheme involves the writing down of the capital stock of the Canadian Northern Railway. It so happens that a block of the Canadian Northern capital stock is held by the province of British Columbia and which has never been returned

to us. We have tried to get them to let it come back for a great many years. That complicates the situation to some extent. I don't know to just what extent, but that is one of the outstanding items.

Hon. Mr. EULER: How much is that?

Mr. ROBERTS: \$600,000.

Mr. GRAY: Mr. Matthews mentioned it in his report.

Mr. ROBERTS: There are complications of that nature. For instance, in connection with the payment of interest on underlying securities, where we paid that interest directly, we have taken coupons; in that way we have underlying security. The point is that parliament should be advised as to whether or not a departure is being made from the plan that has been in force from the beginning; and whether so long as these lines are not an integrated system, and so long as there are securities outstanding that the government has not guaranteed and which are not obligations of the government in any way, you should surrender any of your security. That is the question of policy involved. So far as bookkeeping is concerned, I agree with Mr. Matthews that it is a very simple matter.

Hon. Mr. MANION: I just want to get a direct answer to this: I understood Mr. Roberts to say—and he will correct me if I am wrong—that there are a great many more complications to the change of capital structure of the Canadian National Railways, in his opinion, than apparently there are in the opinion of Mr. Matthews.

Mr. ROBERTS: Yes. I think that involves the question of whether or not the government is surrendering good security which it may hold in the event of, for instance, some parts of the line having to fall back.

Hon. Mr. MANION: Has that ever been investigated by the Department of Finance of this government?

Mr. ROBERTS: No.

Mr. BEAUBIEN: How much are the securities?

Mr. ROBERTS: You find them all the way through.

Mr. BEAUBIEN: Have you the total amount?

Mr. ROBERTS: There are several. One item is \$33,000,000. That may be a capital item, of course. It is difficult to separate these deficit items from capital items for any period. It would be rather intricate.

Mr. BEAUBIEN: Have you got them separated?

Mr. ROBERTS: No, because the loans have been made simultaneously for capital and for deficit.

Mr. HANBURY: I would like to ask Mr. Roberts a question. If the entire debt to the public had been guaranteed by the Dominion government, then your argument would not be the same?

Mr. ROBERTS: No.

Mr. HANBURY: Your entire argument as to the advance is based on the fact that there are certain of the bonds or mortgages not guaranteed by the government.

Mr. ROBERTS: Right.

Mr. HANBURY: Is there any thought in your mind that any small amount, even, of the unguaranteed debt of the Canadian National Railways might ever be voided?

Mr. ROBERTS: I am afraid I cannot foretell the future.

Mr. HANBURY: No, but I think that is a very important question.

Mr. ROBERTS: I think that has to be determined as the situation arises.

Mr. HANBURY: Yes. That is, after all, the basis of your entire argument, is it?

Mr. ROBERTS: Yes.

Hon. Mr. EULER: May I ask this: What is the amount of such unguaranteed securities in existence?

Mr. ROBERTS: \$200,000,000.

Hon. Mr. EULER: So your whole argument is directed against the item of \$200,000,000?

Mr. ROBERTS: Yes.

Hon. Mr. EULER: Upon which the security of the Dominion might be impaired by reason of this writing down; is that right?

Mr. ROBERTS: I had no argument.

Hon. Mr. EULER: We will not call it an argument then. Your total objection would be on the score of that \$200,000,000?

Mr. ROBERTS: I simply stated that there were certain complications that might well be pointed out before the plan was adopted.

Hon. Mr. EULER: I will take you at your own word. But it involves only the \$200,000,000?

Mr. ROBERTS: Yes.

Hon. Mr. EULER: That is all.

Mr. ROBERTS: Yes.

Hon. Mr. EULER: All right.

Mr. ROBERTS: \$280,000,000, I think.

Hon. Mr. EULER: Well, what is a mere \$80,000,000? Just to clear up that one point, I would like to get a reply from Mr. Matthews, if he cares to make any, as to whether Dominion rights would be prejudiced by following out his plan.

The CHAIRMAN: Before he does that, I would like to ask a question of Mr. Roberts. Is it your view that, in considering this report of Touche & Company, the matter should be investigated by the Finance department of the Dominion?

Mr. ROBERTS: Well, I think that every step in dealing with the writing down of each item, the disposition of the security which we hold should be carefully considered item by item, and the legislation drafted with these difficulties in view, and with a view to having any policy involved being made clear to the government and to parliament.

Hon. Mr. EULER: We would not quarrel with that.

Mr. BEAUBIEN: In the report they recommend reduction of the capital structure by a certain amount. Can the recapitalization be arrived at, with the amount raised by \$280,000,000, without any complications?

Mr. ROBERTS: No, the two things are not together.

Mr. HEAPS: Before Mr. Matthews is recalled, I should like to know if you have the statement with regard to the questions I asked the other day.

The CHAIRMAN: I asked him about that.

Mr. HEAPS: When may we have that?

Mr. ROBERTS: I could give you a brief statement now, sir. Questions raised as to the relationship of government and railway debts have been in two forms:

1. What part of the railway debt is included in the government debt; and
2. What part of government debt is due to expenditure on our railway system.

The first question can be answered precisely and in fact has been answered in exact terms to the House and committee. All advances to the railways and whatever additional charges such outlays have involved in the way of interest on public debt, as well as the government investment in the Canadian government railways, have been fully absorbed in our net debt figures, with the excep-

tion of some \$42,700,000. The latter figure is made up of \$15,700,000 of Canadian government railways working capital advances, which has been carried as an active asset since the days of government operation of these lines, and \$27,000,000 of advances to the Canadian National Railways in 1932-1933 and 1934 for capital and refunding, also carried as an active asset. Apart from this \$42,700,000, there is nothing shown in the accounts of the railways as liabilities to the dominion that has not been absorbed in the dominion net debt.

Hon. Mr. EULER: How much duplication is there?

Mr. ROBERTS: Well, the duplication will amount to the sum of \$600,000,000 of advances, plus capital account of the railways, approximately \$1,000,000,000.

Hon. Mr. EULER: I understood \$1,500,000,000.

Mr. ROBERTS: No, because the interest is not in our accounts at all.

Mr. MACMILLAN: No interest on the \$27,000,000.

Mr. ROBERTS: No interest charged in our accounts. The other question is, what part of the existing government debt is due to expenditure on the railway system, and it cannot be answered. It is a similar question to this: what would our debt be if we never had any railways? And there are a great many considerations involved before you can answer a question of that kind, as the public accounts are operated on a consolidated fund basis, and there has been no separate accounting for railway expenditures. Borrowings have not been earmarked, nor have revenue surpluses been allocated to specific expenditures. The facts set out in our accounts are as follows: at March 31st last the total direct liabilities of the Dominion were \$3,200,000,000. As against this the accounts showed cash, loans to provinces and other active assets amounting to \$357,000,000; capital expenditures since Confederation of \$966,000,000, in which figure is included \$443,000,000 spent on Canadian government railways; loans to Canadian National Railways, \$655,000,000; old railway accounts, Grand Trunk and Canadian Pacific, \$88,000,000; other loans and advances, \$93,000,000. These items aggregate \$2,160,000,000. To account for the total amount of the liabilities of the Dominion outstanding today, you add to that \$1,040,000,000, which represents the net deficit since the beginning of Confederation—that net deficit of over \$1,000,000,000 is after absorbing the total cost of the war. So that as the accounts stand today, the railway items shown above charged in the first instance either to capital or loans, total \$1,180,000,000, taking no account for interest. Any interest charges arising out of this outlay have been paid as a current expenditure and have added to the deficit on ordinary account. To sum up, any answer to the question must necessarily be hypothetical, especially when interest charges are involved. What has been expended on railway is a matter of record. What of our present debt is attributable to railways can only be answered after certain arbitrary assumptions are made; (1) as to application of surpluses, to particular capital expenditure; (2) as to particular borrowings or rates of interest to apply on expenditures. This would appear to involve long and tedious calculations which have no practical value.

Hon. Mr. EULER: Now, if I may just sum that up again, the plan that the auditor has reference to, the recasting of the capital structure to the extent of \$1,800,000,000—these figures are too big for me—am I correct in assuming, Mr. Roberts, that your concern as to possible complications—I want to put it fairly—applies only to some \$280,000,000 of the \$1,800,000,000 that is involved?

Mr. ROBERTS: I think the correct way to say it is that it applies to the disposition of whatever security we hold for the \$600,000,000 advanced. Half, approximately, would be written off under this scheme.

Hon. Mr. EULER: Which you say is the unguaranteed security, over \$280,000,000.

Mr. ROBERTS: Yes, sir.

Hon. Mr. EULER: In regard to the balance of the \$1,800,000,000 you have no particular concern?

Mr. ROBERTS: Yes. There is one thing I should like to say. In dealing with those accounts, Mr. Matthews stated that the position of the dominion accounts with the railway accounts exhibited a condition that you would not find in a business where there was a corporate company as parent and then a subsidiary organization, because he implied that we had written out of our books those loans to the railways. As a matter of fact, they have not been written out; they stand there on the assets side to-day, the asset side of the books representing expenditures.

Hon. Mr. EULER: Inactive assets.

Mr. ROBERTS: But for the purpose of exhibiting our net debt position to the country and the world at large, we do not take them into account as assets, because they have not any realizable value.

Mr. HANBURY: You keep them on the records.

Mr. ROBERTS: Yes. So far as bookkeeping is concerned, there is no inconsistency between our system and that of a commercial organization.

Hon. Mr. EULER: If I may I should like to have Mr. Matthews recalled.

Mr. HANBURY: Before Mr. Roberts leaves, I should like to understand a little further a statement of your argument in regard to the difficulties of carrying out the Touche recommendations as based on the approximately \$280,000,000 of unguaranteed bonds.

Mr. ROBERTS: I would rather you turned to page 25 and looked at the list of Canadian National loans outstanding totalling the sum of \$672,000,000. There is some security held by the Dominion of Canada for those loans. Now, to the extent that some unguaranteed security were effected —

Mr. HANBURY: That is where it becomes involved.

Mr. ROBERTS: Yes, to the extent of that security which underlies some unguaranteed securities, it would be a consideration.

Mr. HANBURY: But then you made a statement, Mr. Roberts, if the balance of the bonded indebtedness had been guaranteed by the government, what difference would there be?

Mr. ROBERTS: There would not be any difference at all; we would be responsible for the whole debt.

Mr. HANBURY: I just wish to call your attention to the \$72,000,000, as I understand it, guaranteed by the provinces.

Mr. ROBERTS: No. I think that \$72,000,000 is in addition.

Mr. HANBURY: No, I think not.

Mr. ROBERTS: \$280,000,000 altogether.

Mr. HANBURY: A total of \$282,000,000 as I understand it, of which \$72,000,000 had been guaranteed by the provinces of Canada, leaving a net unguaranteed amount of \$210,000,000.

Mr. ROBERTS: The dominion has never relieved the provinces from their position?

Mr. HANBURY: I appreciate that, but we are all the same taxpayers. I see here of that remaining \$210,000,000 approximately \$61,000,000 is for equipment trust issues and the balance, \$150,000,000 approximately, is just general. Then, I see an item here on which I should like to have an explanation, of four per cent perpetual consolidated debenture stock, Canadian Northern, \$45,000,000. Is that held by the public generally?

Mr. ROBERTS: Yes.

Mr. HEAPS: I should like to ask Mr. Roberts a question to satisfy my curiosity. When we discussed the debt problem the other day we found the

government debt of approximately \$3,000,000,000 and the Canadian National debt was about the same amount. Now I find those figures are not the correct figures. What is the duplication, approximately \$1,000,000,000 in the two accounts?

Mr. ROBERTS: More than that, sir.

Hon. Mr. EULER: \$1,500,000,000.

Mr. ROBERTS: Duplication of the whole amount which the Canadian National Railways show as loans from the Dominion or Dominion investment in railways, excepting the \$42,000,000 I mentioned. After all, if you look at it from the dominion viewpoint, all you have in mind is the fact that we have \$3,200,000,000 of debt in various forms. In addition to that, if you want to embrace the whole of the C.N. Railways, the only other debt you have to take into consideration is the funded debt to the public of the Canadian National Railways amounting to \$1,132,000,000.

Hon. Mr. MANION: No, \$1,300,000,000.

Mr. ROBERTS: \$1,246,000,000.

Mr. HEAPS: What I am trying to get at is what is the combined debt of the Canadian National Railways and the government?

Mr. ROBERTS: The gross debts?

Mr. HEAPS: No; after you deduct the duplication.

Mr. ROBERTS: The gross debt, not taking into consideration any assets the dominion may have?

Mr. HEAPS: Absolutely.

Mr. ROBERTS: The gross debt of the dominion \$3,200,000,000 and the debt of the railways \$1,200,000,000.

Mr. HEAPS: So the total combined debt of the railways and the government is \$4,000,000,000.

Mr. ROBERTS: \$4,400,000,000 is the whole picture without consideration being taken of any assets at all.

Mr. HEAPS: I am glad I have those figures because the impression is abroad to-day that the debt owing by the railways is \$3,000,000,000 and a similar debt is owing by the national government.

Mr. ROBERTS: \$4,400,000,000.

Hon. Mr. EULER: May we get an answer from Mr. Matthews?

Hon. Mr. MANION: I have no objection. But may I just say I presume that it is the opinion of this committee that Mr. Roberts should know more about national financing than Mr. Matthews. He is a business auditor. I just interject that here because I cannot quite see the purpose—

Mr. HANBURY: I think we can place our own valuation on the witness.

Hon. Mr. MANION: I can place my own on him too. I am placing my own on him.

Mr. HANBURY: I do not think you need to point it out to us.

Hon. Mr. MANION: I do not need any suggestions from you; you get that straight.

Mr. HANBURY: I suggest we do not need any instructions from you.

Hon. Mr. MANION: I suggest a little less politics from yourself.

Mr. GRAY: Of course the minister never plays politics, no.

Hon. Mr. MANION: Oh, yes, I do; I admit I do.

The CHAIRMAN: I think Mr. Matthews is ready.

Hon. Mr. EULER: I do not need to repeat the question.

Mr. MATTHEWS: The question, as I understood it, was on the matter of security now held by the dominion. As a matter of fact, to repeat that so-called second line of defense for the government, it is covered on page 14 of the appendix, which I have already read, but expressed perhaps in a little simpler language. It is this: The securities that are now held by the dominion, given in the first place as security for loans made to the corporations, are suggested in this proposal not to be surrendered outright but to be held by the Canadian National Railway company on their books against the original corporation; so that the dominion owning all of the capital stock of the C.N.R. company would still preserve its priority position with regard to those original corporations.

Hon. Mr. EULER: Just as it is now.

Mr. MATTHEWS: In effect, yes.

Mr. HANBURY: In other words, in the form of a holding company. You would suggest that would be the effect of it.

Mr. MATTHEWS: The Canadian National Railway Company is the company through which the system financing is done. Our proposal is a precautionary measure to preserve in their respective priorities the legal claims of the dominion as against the original companies for aid granted.

The CHAIRMAN: That is all.

Hon. Mr. EULER: Thank you.

The CHAIRMAN: You therefore are in disagreement with Mr. Roberts.

Hon. Mr. EULER: Mr. Roberts was not sure. He thought it might make for complications; Mr. Matthews says it would not.

The CHAIRMAN: I think he said he should look into it.

Hon. Mr. MANION: Mr. Roberts said it should be investigated.

The CHAIRMAN: That is your side, anyway. I am not saying it is a controversy, but you do disagree to that extent.

Mr. MATTHEWS: We say we have made provision.

Mr. MACMILLAN: We have been here all afternoon.

The CHAIRMAN: And tonight, I was going to suggest. I hope that won't displease you too much. I think we should get along.

Hon. Mr. EULER: We want to be in the House once in a while.

Mr. GRAY: Let them go back home.

The CHAIRMAN: I suggest that we go to work at half past eight and we might get a long way towards completion. The first thing you know we will be confronted with recess.

The CHAIRMAN: I do not know how the committee views the matter, but I should like to let these gentlemen get back to their work over the week-end.

Mr. MCGIBBON: A little holiday will not hurt them.

Hon. Mr. FULLERTON: We have a lot of work piled up, and we would like to have to-morrow and Saturday free to catch up.

Hon. Mr. MANION: And also remember that the government hopes to adjourn on Wednesday, and judging from the discussion this afternoon it might possibly be Tuesday.

Mr. HANBURY: I think, perhaps, the best thing to do is to adjourn over the Easter recess.

The CHAIRMAN: I do not know. Mr. Euler has a motion and I suppose we are ready for that.

Hon. Mr. MANION: I was going to move an amendment, but I had a few remarks to make.

Mr. McGIBBON: What strikes me, Mr. Chairman, is this: this is probably the most important matter that comes before parliament; we sit here for an hour or two, but with all due deference after the subject matter has been discussed I do not think it amounts to a damn. As far as solving the problem is concerned, I think we could well adjourn until after the 20th of May, and let these people go home.

Hon. Mr. MANION: Is there any real objection to going on to-night?

Mr. GRAY: With Mr. Euler's motion?

Hon. Mr. MANION: Yes. Perhaps we could dispose of that, and then the committee would be in a position to go on to something else.

Mr. HANBURY: I might say that it would be a little inconvenient for me. I happen to be a member of the housing committee, and that committee has been considering its report, and I would like an opportunity to give some study on that before we meet to-morrow in the housing committee. Mr. Gray is also a member of that committee.

Mr. BEAUBIEN: It seems that we shall not be able to get through before the recess in any event, so if the officials want to have the week-end to catch up with their work why not let them go.

Hon. Mr. MANION: I should like to say a few words before we close. I may move an amendment, but I may want to change it because, as a matter of fact, I drew it up hastily. However, I wish to make a few remarks, and I think five minutes will be all the time I shall require.

First of all, with regard to Mr. Matthews' statement, I want to say that I have no quarrel with his suggestions at all. He put up a lot of arguments in favour of his proposals, and there are many arguments that can be put up the other way. Mr. Roberts, in his very brief statement, indicated some of them in the complications involved and in the investigation necessary; and my remark here—and I think it is an important one—is that while it is true as Mr. Euler suggested to Mr. Roberts, and quite rightly, that out of all the railway debt the part that Mr. Roberts is greatly worried about amounts to two hundred odd million dollars on guaranteed debt of the C.N.R. In contradistinction to that, the write-down of this account suggested by Mr. Matthews of one billion dollars in round figures would not affect the C.N.R. to the extent of one cent, so that whatever damage there might be done to the securities of the government, those securities that Mr. Roberts referred to, amounting to something over \$200,000,000, would be a dead loss in that regard.

Now, I want to elaborate that for a moment. If you will look at page 13 of the annual report you will notice that the items which Mr. Matthews dealt with are four in number: capital stocks \$270,000,000—I will speak in round numbers; government grants \$17,000,000; loans from Dominion of Canada \$1,100,000,000; Dominion expenditures on Canadian government railways \$404,000,000. I totalled those up hurriedly, and I make the total out at \$1,820,000,000. Mr. Matthews' suggestion only refers to the writing off of \$1,046,000,000. In other words, even if we carried out Mr. Matthews' suggestion there is still left \$800,000,000 against the railway on the books of the railway itself and on the books of the Dominion of Canada.

Hon. Mr. EULER: Of course, he has a suggestion in regard to that.

Hon. Mr. MANION: All right. It still leaves that \$800,000,000. Even if we wipe out that figure of one billion suggested by Mr. Matthews you still would not affect the Canadian National to the extent of one cent because nothing has ever been paid upon that in any shape or form.

Hon. Mr. EULER: That is our argument.

Hon. Mr. MANION: You gentlemen understand the matter thoroughly, that is plain; but the public generally do not understand this question so well as you

do. It is clear that there would still be \$800,000,000 owing by the railways to the government upon which nothing would be paid, as has been the case in the past.

The third point I want to make is that this becomes a question of government policy—not necessarily this government but some government has to deal with it. Because it wipes off one billion dollars of the railway debt in their books there has to be an adjustment of the public accounts and an adjustment of railway accounts; it affects government guarantees as pointed out by Mr. Roberts; and there are legal implications that must be considered because the shareholders are the owners and parliament represents the shareholders. On the other hand, the trustees are the managers, and, without reflecting on them in any way, they are prejudiced witnesses when it comes to putting such a question in their hands.

I will explain that. I am not saying that offensively. But they are prejudiced witnesses to decide upon such a question as this.

Mr. HANBURY: Just explain what you mean.

Hon. Mr. MANION: I am not saying it offensively; because the trustees would like not only to adopt Mr. Matthews' proposal of wiping off the billion dollars—they would like to make a good showing—but they would like to wipe off still more. In other words, to make a good showing any board of trustees or any group of directors naturally would like to cut the liabilities to nothing if necessary.

Therefore, my suggestion was—and I come back to it now and I still adhere to it—that after listening to all the discussion very interestedly and with no object except that of getting the railway into a fair general financial position—my suggestion is now that it would be far better not to place this matter in the hands of those whose whole interest would be the decreasing of the liabilities of the Canadian National railways, but to leave it in the hands of the gentlemen I suggested—my own deputy, the Deputy Minister of Finance and the Deputy Minister of Justice—who would deal with all aspects of the case in a non-partisan way, because they are non-partisans; there is not one of those three deputies to whom I refer who, as far as I know, has ever been a conservative.

Hon. Mr. EULER: We are not thinking of that.

Hon. Mr. MANION: I am only trying to show that we are not trying to place this power in the hands of any political group.

Mr. HANBURY: Nobody is suggesting that.

Hon. Mr. MANION: The deputies are trained men, all three of them. If we are going to submit to the trustees a question like this—and I say without offence that they are naturally prejudiced in favour of decreasing the liability of the railway—why not submit all other questions to them? And again I say this without offence, if the trustees are the proper people to deal with this refinancing why not also submit to the trustees Mr. Euler's suggestion made in Chatham in December for unification.

Hon. Mr. EULER: I have never given it here.

Hon. Mr. MANION: No, not here; nobody asked for it.

Hon. Mr. EULER: I did not make my speech here either.

Hon. Mr. MANION: No, that is true; but some of the speeches I have made elsewhere have been quoted here quite *ad lib*.

Mr. HANBURY: That is how they were made.

Hon. Mr. MANION: I have no objection, but I beg to be permitted to quote from the speeches of other people when my own speeches are quoted also.

I am going to move an amendment. It is rather lengthy, but it covers the ground. It is moved by myself in amendment to Mr. Euler's motion, and I will ask Dr. McGibbon or one of the other members to second it.

Mr. GRAY: They may not want to second it.

Hon. Mr. MANION: If Dr. McGibbon does not, I will ask one of you gentlemen to second it. My amendment is as follows:—

That, in the opinion of this committee the question of changes in the capital structure of the Canadian National railways, at present before the board of trustees at the instance of the Duff commission, and not yet reported upon, is too large and complicated a matter to be dealt with by this committee at this late stage of the session and of parliament, and on the basis of information present available.

The committee is further of opinion that it would be in the best interests of all concerned if, before any recommendation is made to parliament by this committee, the entire question should be studied by a committee consisting of the Deputy Minister of Railways and Canals, the Deputy Minister of Finance, and the Deputy Minister of Justice in order that due consideration may be given the important practical, financial and legal questions involved, and that for this purpose the present report of Touche & Company should be referred to the proposed committee of deputy ministers, who should be instructed to consult with the board of trustees and necessary officers of the Canadian National Railways with respect to the recommendations of both the Royal Commission and of Touche & Company.

Hon. Mr. CHAPLIN: And you might add the words "and report back to the committee."

Hon. Mr. MANION: That is in the hands of the committee. I have no objection.

Mr. MACMILLAN: I would like to point out that due to illness Dr. McGibbon was not put on this committee, so I shall have the pleasure in replacing him as the seconder of the amendment.

Hon. Mr. MANION: My amendment is seconded by Mr. MacMillan. I am sorry I did not have an opportunity to ask one of you other gentlemen.

Mr. GRAY: We would have been glad in order to have an opportunity to speak to it.

The CHAIRMAN: How long will it take to dispose of this matter?

Mr. GRAY: I propose to speak to it.

Hon. Mr. EULER: So do I.

Mr. BEAUBIEN: It is too late in the session to consider anything of this kind; we might just as well dissolve parliament.

The CHAIRMAN: We could keep the officials here until to-morrow night if we thought we could get through.

Mr. HANBURY: Judge Fullerton said he would like to get away to catch up with his work over the week-end.

Hon. Mr. FULLERTON: We will stay if we can get through.

The CHAIRMAN: After we finish with this we have the budget which is not very extensive this year and will not take very long to dispose of.

Mr. HEAPS: I happen to be a member of the Housing Committee too, and we are sitting to-morrow morning.

The CHAIRMAN: I see we cannot go on to-night as we will not be able to finish by six o'clock.

Hon. Mr. EULER: We can't finish by 6 o'clock as it is one minute to six now.

The CHAIRMAN: Shall we meet to-morrow?

Mr. HANBURY: I suggest, Mr. Chairman, that we adjourn until after the recess.

Hon. Mr. MANION: I am only one member of the committee, and I am in the hands of the committee; naturally it is rather a difficult proposition for the Minister to be here with the committee sitting day after day, but I want to be here because I never know when somebody is going to try to put something over.

Hon. Mr. EULER: I think perhaps this motion of mine if put should carry, as it ought to.

Mr. GRAY: As it will.

Hon Mr. EULER: The trustees would then have an opportunity during the recess of studying the whole thing and perhaps then have a recommendation to make, and then we could put this through before the House closes.

The CHAIRMAN: That is very optimistic.

Mr. HANBURY: I am inclined to think that Dr. Manion's amendment might carry; I would like to have it delayed as long as possible.

The CHAIRMAN: Gentlemen, what do you wish; it is in the hands of the committee.

Hon. Mr. EULER: After the recess.

The CHAIRMAN: What do you gentlemen down here say?

Hon. Mr. CHAPLIN: Let us get through.

The CHAIRMAN: Will someone make a motion to adjourn?

Mr. HANBURY: I move that the committee adjourn until after the recess, and then to meet at the call of the chair.

On the motion being put, on a showing of hands there were five supporting the motion and five opposing:

The CHAIRMAN: I think then gentlemen we will sit to-morrow.

Hon. Mr. MANION: The Chairman has the casting vote; I did not even vote.

Mr. GRAY: Would you do this for us; the Housing Committee purposely adjourned this afternoon in order to allow us to come here. We are having another meeting to-morrow morning. Could you sit in the afternoon?

The CHAIRMAN: There is no use just sitting in the afternoon.

Mr. HEAPS: I would really like to have met this morning if we could. The Housing Committee also happens to meet at the same time and we postponed the meeting of the Housing Committee purposely to be here.

The CHAIRMAN: I am afraid I will have to change my vote. The committee will adjourn until after the recess.

The committee adjourned at 6.05 p.m., to meet again after the Easter Recess at the call of the Chair.

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SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, MAY 28, 1935

WITNESSES:

Hon. C. P. Fullerton, Chairman, and Mr. J. E. Labelle of the Board of Trustees, Canadian National Railways.

Officials of the Canadian National Railways.

Appendices "A" and "B."

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

TUESDAY, May 28, 1935.

The meeting came to order at 11 a.m., Mr. Geary presiding.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Cantley, Duff, Euler, Fiset, Fraser, Geary, Gray, Gobeil, Heaps, MacMillan, Manion, Price, Stewart, Tummon.

In attendance, Hon. Mr. Fullerton and Mr. Labelle of the Board of Trustees, and Officials of the Railway.

President Hungerford being called upon, outlined the position relative to the repair, construction and purchase of equipment.

The Canadian National Railway budget for the year 1935 was taken under consideration.

The Chairman referred to a letter received from Mr. O. A. Matthews of Touche & Co., Chartered Accountants, and handed same to the Railway Officials for consideration.

Discussion took place as to complaints respecting "Seniority" of railway employees.

The meeting adjourned at 1 o'clock till 4 p.m.

The committee re-convened at 4 p.m., Mr. Geary in the chair.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Cantley, Euler, Fiset, Fraser, Geary, Gray, Gobeil, Heaps, MacMillan, Manion, Price, Stewart, Tummon.

The Chairman ruled the motion of Mr. Euler, "That the report of Touche & Company be referred to the Board of Trustees of the Canadian National Railways for consideration and report, with special reference to the recommendation of Touche & Company for the re-casting of the capital structure of the Canadian National Railways," and the amendment thereto of Mr. Manion, "That, in the opinion of this committee, the question of changes in the capital structure of the Canadian National Railways, at present before the Board of Trustees at the instance of the Duff Commission, and not yet reported upon, is too large and complicated a matter to be dealt with by this committee at this stage of the session and of parliament, and on the basis of information presently available.

The committee is further of opinion that it would be in the best interests of all concerned if, before any recommendation is made to parliament by this committee, the entire question should be studied by a committee consisting of the Deputy Minister of Railways and Canals, the Deputy Minister of Finance, and the Deputy Minister of Justice in order that due consideration may be given the important practical, financial and legal questions involved, and that for this purpose, the present report of Touche & Company should be referred to the proposed committee of deputy ministers, who should be instructed to consult with the Board of Trustees and necessary officers of the Canadian National Railways with respect to the recommendations of both the Royal Commission and of Touche & Company," were not in order as the subject matter of the said motion and amendment is sub-judice in a case now pending.

Mr. Euler appealed from the ruling of the Chair. Upon the question being put the chairman's ruling was sustained. Yeas 9, Nays 6.

The Chairman of the Board of Trustees outlined the consideration given by him and the Board to the question of reporting on the re-casting of the Capital Structure of the Railway.

Mr. MacMillan filed a list of questions to be answered by the Board respecting the Capitalization of the Railway; the answers to be filed with the clerk and incorporated in the printed minutes.

The meeting adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 28, 1935.

The select standing committee on Railways and Shipping met at 11 o'clock, Colonel O. R. Geary, the chairman, presiding.

The CHAIRMAN: Gentlemen, I think I see a quorum. I am in the hands of the committee as to procedure. I observe that when we left here on the 11th day of April we had the motion of Mr. Euler and the amendment of Dr. Manion before us, and we had some illusory idea that we might finish that evening. We did not.

Mr. HEAPS: Did we not have a statement from the Minister of Railways yesterday in the House that Mr. Hungerford was to make a statement to the committee today.

The CHAIRMAN: Had we not better go ahead and finish with what we have and then take that statement from Mr. Hungerford? I think it will be a little more in order if we proceed that way.

Mr. HEAPS: There has been such a long recess, and this matter only occurred yesterday.

Mr. MACMILLAN: I think Dr. Manion had better be here when the statement is made.

Mr. HEAPS: Dr. Manion made the statement in the House yesterday that Mr. Hungerford would have a statement for the committee this morning.

The CHAIRMAN: I do not know that Mr. Hungerford has a statement, but would the committee be agreeable to allow Mr. Heaps to ask Mr. Hungerford about this matter and let us get through with that point?

Mr. HUNGERFORD: I will be glad to make a verbal statement.

The CHAIRMAN: Any statement is a statement. Mr. Heaps can ask any questions concerning it.

Mr. HEAPS: If Mr. Hungerford is prepared this morning to make a statement on the subject, naturally I would be glad to have it.

The CHAIRMAN: May I say that yesterday somebody said that the question of added equipment was one that was always settled by a conference of railway officials throughout the continent who agreed as to what extra equipment each road should buy.

Mr. MACMILLAN: Do you include United States railways?

The CHAIRMAN: Yes, railways on the continent.

Mr. MACMILLAN: They determine what the equipment should be?

Mr. HEAPS: And also the equipment that should be discarded.

Mr. HUNGERFORD: I have never known of that before.

Mr. HEAPS: Is the Canadian National Railway in any way associated with the international organization of railway executives that discuss this question?

Mr. HUNGERFORD: Not in respect to the supply of equipment; but there are rules and regulations in respect of details of design.

Mr. MACMILLAN: And interchange?

Mr. HUNGERFORD: Yes, and interchange rules.

Mr. HEAPS: Was any arrangement made with regard to what equipment should be discarded this year between the railways on this continent?

Mr. HUNGERFORD: None at all. It is a matter for each individual railway to determine for itself.

Mr. MACMILLAN: And no international committee decided whether our Canadian National Railway or our Canadian Pacific Railway should buy equipment or should not buy equipment?

Mr. HUNGERFORD: No organization that I know of has any say about that.

Mr. CANTLEY: It is never done.

Mr. HEAPS: I wanted to have that statement.

The CHAIRMAN: Mr. Hungerford, how about your statement?

Mr. HUNGERFORD: The situation in regard to equipment of the Canadian National is this: in general we have a large supply, a very considerable surplus of a great many lines of equipment; but there are certain kinds of equipment—you understand that we require a great variety of types of cars and locomotives—there are certain types of equipment that we are periodically short of, notwithstanding the fact that we have a great surplus of other kinds; and during the periods of shortage we exercise the usual privileges of renting from other lines that have a surplus to rent at that particular time. The renting of that equipment in a peak period represents certain costs. Ordinarily that amount is not sufficient to justify ownership; but under the terms we have discussed with the government, the purchase of these particular classes of equipment we have under consideration is justified on an economic basis.

Mr. HEAPS: Will you tell us what are the classes of equipment that you are short of at the present time and that you intend purchasing?

Mr. HUNGERFORD: Yes. Refrigerator cars, coal cars and automobile cars.

Mr. HEAPS: Has any of this equipment ever been manufactured in the Transcona shops or other railway shops?

Mr. HUNGERFORD: Some of the refrigerator cars have.

Mr. HEAPS: Have they been satisfactory?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Is that the kind of car you intend to purchase from the private contract shops?

Mr. HUNGERFORD: In the past we built some few and we bought a great many more.

Mr. HEAPS: May I ask if you can inform the committee as to the relative cost of producing that equipment in our own shops and purchasing it from the private contractor?

Mr. HUNGERFORD: Well, that is a debatable question because one gets into the argument about the proper assessment of overhead and on what basis that really would count; but the cost of refrigerator cars that we have built has been about the same.

Mr. HEAPS: Do you know anything about the wage rate as paid in the railway shops and as paid in the private contracting shops?

Mr. HUNGERFORD: I could not tell you that, because in the contract house piece-work applies almost entirely, I think.

Mr. HEAPS: You could, if the order was given, manufacture some of the equipment in your own shops?

Mr. HUNGERFORD: We could manufacture a certain amount of certain types only; that is all.

Mr. MACMILLAN: Mr. Hungerford, are your railway shops equipped to build general equipment including refrigerator cars and that sort of thing to any extent?

Mr. HUNGERFORD: They are only suitable for and equipped to build certain kinds of equipment.

Mr. MACMILLAN: Are they suitable to build any great quantity of certain kinds in a given period in a given year?

Mr. HUNGERFORD: To build any large quantity at any particular time would involve a considerable development of our plant. It will depend on circumstances. It depends on the amount of repair work they have to take care of.

Mr. MACMILLAN: Is your plant built primarily for the purpose of building railway equipment?

Mr. HUNGERFORD: No.

Mr. MACMILLAN: It is built as a sort of auxiliary?

Mr. HUNGERFORD: No. Our plants were built primarily to take care of repair requirements.

Hon. Mr. EULER: Have you built new cars in these shops?

Mr. HUNGERFORD: We built some of a certain type.

Hon. Mr. EULER: Can you build as cheaply as the private companies?

Mr. HUNGERFORD: I just answered Mr. Heaps in that regard. We were speaking particularly of refrigerator cars, and they are about the only type of car that we have built in our own shop; and allowing for difference in charging overhead, because the same conditions do not apply, the cost is generally about the same.

Mr. HEAPS: So far as the car itself is concerned—the quality of the equipment you produced—is it as good as that produced by private shops?

Mr. HUNGERFORD: I do not think there is any difference; they are built to the same standard.

Mr. HEAPS: Is it the considered opinion of the management that large orders for equipment such as are contemplated now should be given to private shops beyond a certain point which you can look after yourselves?

Mr. HUNGERFORD: Well, speaking for the Canadian National—the Canadian National shops are not equipped suitably for the construction of some of the types of equipment under consideration now.

Hon. Mr. EULER: At a previous meeting of the committee held before the recess I think you made the statement in reply to a question by a member of the committee that you did not require any new equipment, that you had sufficient except during peak periods at which time you followed the regular railway practice of borrowing. You said you did not think it was economically justifiable to build enough cars so that you would have sufficient during the peak period. Am I right in that statement?

Mr. HUNGERFORD: I do not think I made myself clear—

Hon. Mr. EULER: Perhaps I will complete my question and you can make any explanation that you wish afterwards. You said this morning—I am putting it in my own words—that under new circumstances—that is the conditions under which the government proposes to advance the monies or guarantee the monies—that you think now it is justifiable. What are the conditions? Is it simply the fact that the railway escapes the payment of interest for two years? Is it that one factor that makes justifiable the thing that was not justifiable before?

Mr. HUNGERFORD: I do not know that those details are finally settled; but the conditions we have been discussing were the basis of my statement. I would like to go back and make clear this point relating to some misunderstanding that may have been due to my remarks on a previous occasion. I repeat what I said a few minutes ago, that we have a surplus in many forms

of equipment. We would not think of buying equipment of those particular kinds at all under any conditions; we could not justify buying that; but there are certain other classes of equipment, such as those under consideration at the present time, that we are periodically short of, and in order to secure those particular classes of equipment we have had to rent them from other people and we have to pay rental, of course, for their use. I have said before that the rentals so far on the average did not equal the cost of ownership, but when we get favourable terms with relief from the interest for a period of time, it really brings it back to a point where it is profitable to buy the equipment.

Hon. Mr. EULER: I will ask you another question. I think there was a remark made by the minister in the House yesterday—perhaps I am wrong—I am sorry the minister is not here at the moment—I think he made a remark somewhat to the effect that perhaps the Canadian National Railways would never be asked to repay the capital cost of this equipment. I suppose that would be quite satisfactory to the railways?

Mr. HUNGERFORD: That might be so, Mr. Euler, but I assure you that was not taken into consideration.

Mr. BOTHWELL: In connection with the exchange of equipment, the same rule that you have with American lines holds good with regard to exchanges with the C. P. R.?

Mr. HUNGERFORD: Right.

Mr. BOTHWELL: And, are payments made periodically by one railway company to the other for the use of their respective equipment; that is, if the Canadian National use more C. P. R. equipment than the C. P. R. uses of Canadian National, is there any compensating payment made at any time during the year?

Mr. HUNGERFORD: Oh, yes; the use of cars is paid for on the basis of one dollar a day for use.

Mr. HEAPS: Could you tell us how much you paid last year for the use of railway equipment belonging to other lines?

Mr. HUNGERFORD: That is, involved in the general interchange of traffic.

Mr. HEAPS: Yes.

Mr. HUNGERFORD: The interchange rules provide that cars loaded on any line must be received and transported by any other line. We are subscribers to these rules, and practically all the railways in North America are subscribers to the interchange rule. They also provide that from the time a car is received on your line until it leaves, as forced by the interchange of goods, you are required to pay the per diem of one dollar a day.

Mr. HEAPS: But you have some idea of what these payments were from say last year?

Mr. FAIRWEATHER: I have the figures here for 1934.

Mr. HEAPS: What are they, if you have them?

Mr. FAIRWEATHER: For the year 1934 we paid foreign lines per diem—taking the net figures in the annual report—the net figure was a debit balance of \$904,000. That was made up of payments to foreign lines of \$2,400,000; and of payments to private lines—that is, there are certain companies that make a business of owning cars and renting them out to railway companies, chiefly refrigerator cars and tank cars—\$1,500,000. We received from foreign lines per diem allowance amounting to \$3,200,000 for the use of our cars; and after a few other adjustments of a minor nature that gives you the net figure of \$900,000.

Mr. BOTHWELL: You say that is a debit?

Mr. FAIRWEATHER: A net debit of \$900,000.

Mr. HEAPS: Could you give to the committee any idea as to what would be the change in these figures given to us just now by Mr. Fairweather if you had this new equipment?

Mr. HUNGERFORD: I think it is very difficult to do that, Mr. Heaps, because these figures will fluctuate with the flow of traffic.

Mr. HEAPS: Then, if you get this new equipment that is proposed, there will still be a very large amount of interchange of cars, I presume, between the railways.

Mr. HUNGERFORD: The situation will be just the same, it may change with the times to some extent, but the extent to which it may change would depend upon the flow of traffic, and on commodities.

Hon. Mr. EULER: You are willing to do this because the government are willing to take your money, the interest, out of the national coffers instead of out of the coffers of the Canadian National Railway.

Mr. HUNGERFORD: I am prepared to say this: looking at it simply from the standpoint of the Canadian National Railways, so far as we may calculate, and you have to make some assumption as to the future, we think that the purchase of this equipment on the basis of the terms offered by the government is justifiable.

Hon. Mr. EULER: Because they pay the interest for two years?

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: And it does not come out of the Canadian National?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: I would have thought that was rather a short period to justify such an expenditure when you have to carry the rest of it for probably fifteen years.

I would like to ask the president another question, if I may, Mr. Chairman, he might not wish to answer this; I would like to ask him whether, in his final opinion on the question, he is swayed by any considerations other than the financial consideration. What I mean by that is this: is there in his mind the thing that is in the minds of all of us; that is, the matter of unemployment and the general good of Canada rather than the Canadian National Railways as a strictly business proposition. I do not know whether I have made myself clear or not.

Mr. HUNGERFORD: So far as we are concerned, we are looking at it purely from the standpoint of a business proposition.

Hon. Mr. EULER: That is different.

The CHAIRMAN: Are there any other questions on this point?

Mr. HEAPS: There was something said in the House yesterday in connection with the allotment of this work and repairs; I think Sir Eugene Fiset raised a point yesterday in the House.

Sir EUGÈNE Fiset: Yesterday the statement was made to us that \$4,000,000 was to be allowed for repairs and the balance was to be allotted for the purchase or construction of new equipment.

Mr. HEAPS: Yes.

Sir EUGÈNE Fiset: But we could not get any exact figures as far as the Canadian National was concerned. I would like to know what amount of this \$4,000,000 is going to the Canadian National for repairs; and of the remainder what amount is to go to the Canadian National for purchases.

Mr. HUNGERFORD: Would it be all right to hold that over until the Minister is here?

The CHAIRMAN: It would, if it is satisfactory to you, Sir Eugène?

Sir EUGÈNE Fiset: That is satisfactory to me.

The CHAIRMAN: You might bring that matter forward again when the Minister is here, Sir Eugène, would you?

Sir EUGÈNE Fiset: Perhaps the question I was about to ask would elucidate the whole thing. I understood the Minister was reading a memorandum which he had in his possession. That must have been prepared by an official of the Canadian National Railways, possibly by Mr. Hungerford himself, and if so possibly he could give us the distribution of these orders. I think the Minister mentioned twenty locomotives for one thing, also a certain number of refrigerator cars; and I think Mr. Hungerford could give us the exact quantity he intends to order.

Mr. MACMILLAN: My recollection is that the Minister did not mention any quantity or number.

Sir EUGÈNE Fiset: Oh, yes, he read from a memorandum prepared by Mr. Hungerford himself.

Mr. MACMILLAN: Have you got that memorandum with you, Mr. Hungerford?

Mr. HUNGERFORD: I am rather handicapped in not knowing what the Minister said.

Sir EUGÈNE Fiset: Then, Mr. Chairman, we had better wait until the Minister is here.

Mr. HUNGERFORD: I presume the Minister was dealing with the combined orders of the two railways, I do not know.

Mr. MACMILLAN: The Minister read a statement.

Sir EUGÈNE Fiset: And one statement he read was from the Canadian National.

Mr. MACMILLAN: Yes, and one was from Mr. Coleman of the C. P. R.

Sir EUGÈNE Fiset: But he made reference to the amount intended for the Canadian National.

The CHAIRMAN: We will leave that until the Minister comes.

Sir EUGÈNE Fiset: Perhaps Mr. Hungerford could give the committee some information as to how this will affect the local shops, and the standing of the men in connection with repairs.

Mr. HUNGERFORD: We expect to be able to increase the working staffs of the shops generally; I don't know just how much yet, but to the extent that this money is used for repairs it will have the effect of increasing the working time of the men who have been on very, very short time for a long period. If certain of the new equipment is built in the shops it will probably have the effect of our taking on some additional help, but we have not reached any definite conclusions in regard to that as yet.

Mr. BEAUBIEN: The effect of that, Mr. Hungerford, will be that you will increase the personnel of the railway shops across the country, and you will also increase the hours over what they are at the present time.

Mr. HUNGERFORD: If there is an increase in inventories and work available that will be apparent all over the system. There will be a proportionate amount of repair work done in all the shops throughout the system. If new equipment is built in our own shops it can only be built in certain shops and it will affect the personnel possibly to some extent in these particular shops, it will have no effect upon the others.

Sir EUGÈNE Fiset: That is exactly what was discussed in the House last night. The Minister read a list of these large shops where these repairs were to be carried on—the list was prepared by his Deputy Minister—he told us that he had not included the small shops that needed the work as much as anybody else, and we tried to enlist his sympathy, and the sympathy of the

officials of the Canadian National to distribute the work as much as possible in order to help to relieve unemployment; because after all that is the only part of that \$4,000,000 that is really going in order to relieve unemployment. I think everyone of us would be extremely glad if it might be possible to help the small terminals. I had in mind, as I mentioned in the House, Riviere du Loup and Moncton, at which places we have a population dependent upon railway employment. We would like to see this work distributed over as large an area as possible, particularly this repair work; and what we tried to do in the House, and what I am trying to do here, is to enlist the sympathy of the officials of the Canadian National Railway.

Mr. HUNGERFORD: I think it will work this way, gentlemen; that the working time of the shops everywhere throughout the system, particularly in the general repair shops, will be increased in some measure. Our thought is to try to distribute the repair work, and the new work, if there is any, in our own shops.

Sir EUGÈNE Fiset: That is quite satisfactory to us.

Mr. HUNGERFORD: Some portion of it, if not all of it.

Sir EUGÈNE Fiset: That is the point we were trying to make in the House yesterday, that this was intended for relief.

Mr. BEAUBIEN: A little while ago you mentioned about some more cars being needed in the peak years; has the service of the Canadian National Railway ever been impaired by not being able to borrow the equipment required at such a time?

Mr. HUNGERFORD: Have we been hampered by not being able to get it?

Mr. BEAUBIEN: By not being able to borrow equipment?

Mr. HUNGERFORD: At times, yes; generally speaking, we have been able to borrow equipment, but there are problems in connection with it at times.

Mr. BEAUBIEN: Could you say off hand, Mr. Hungerford, what would be the cost of one of these refrigerator cars—approximately?

Mr. HUNGERFORD: Oh, they run between \$4,500 and \$5,000, depending on their dimensions and equipment.

Hon. Mr. EULER: You would still have to borrow a number even if you spent this money, wouldn't you?

Mr. HUNGERFORD: It is quite possible, that would depend entirely upon the volume of traffic and where it originates. Let me try to make this point plain; there is a difference between borrowing equipment in the sense that you enter into an agreement to loan a certain number of cars for a specific time, and the general interchange; the interchange goes on automatically so far as cars loaded on foreign lines and destined to some point on the Canadian National are concerned, we are required to accept them and bill them to destination. During the time that that car is on our line we pay one dollar per diem; so you see rental in a case of that kind is involuntary. Our position in that regard would be exactly the same.

Hon. Mr. EULER: Would you get rid of this borrowing which you do when you have this peak demand?

Mr. HUNGERFORD: It would certainly lower the peak.

Mr. BOTHWELL: Could you give us the figures for interchange between the C. P. R. and the C. N. R. for last year?

Mr. FAIRWEATHER: We haven't got that available here.

Mr. HUNGERFORD: We will get that for you if you wish. Cars are going back and forth between the two railways daily.

Hon. Mr. EULER: Certainly.

The CHAIRMAN: Now, gentlemen, I think perhaps it was somewhat along these lines that Mr. Sanderson wanted to address the committee. Would this be the appropriate place for you, Mr. Sanderson?

Mr. SANDERSON: If it meets with your approval?

The CHAIRMAN: It does. I am sure the committee is agreeable.

Mr. SANDERSON: Mr. Chairman, and gentlemen: I am only going to detain the committee a few minutes. What I was going to speak about has been very well discussed within the last five or ten minutes. It is in regard to equipment, and Bill 63 that passed the House last night. First of all I want to ask Mr. Hungerford a question to clear up what is in my own mind. Last night the Minister stated that of the \$15,000,000, of which \$8,000,000 is to go to the C. N. R. for equipment and repairs, there would be an amount of approximately \$4,000,000 for repairs which would go to the railway shops, apportioned to the C. N. R. and to the C. P. R.; is that right, does Mr. Hungerford agree with that, that there will be at least \$4,000,000 in repairs—that is, counting the C. P. R.?

Mr. HUNGERFORD: I can't answer that, Mr. Sanderson; because I do not know what the C. P. R. comes to.

Mr. SANDERSON: Can you tell me approximately what your company will require for repairs?

Mr. HUNGERFORD: Somewhere between \$2,000,000 and \$2,500,000, including also new construction.

Mr. SANDERSON: Yes; and that will all go to your repair shops?

Mr. HUNGERFORD: Yes.

Mr. SANDERSON: Well, will there be any equipment manufactured in your own shops?

Mr. HUNGERFORD: Probably some.

Mr. SANDERSON: Any locomotives?

Mr. HUNGERFORD: No.

Mr. SANDERSON: Any cars?

Mr. HUNGERFORD: Yes.

Mr. SANDERSON: What type of cars?

Mr. HUNGERFORD: Principally refrigerator cars.

Mr. SANDERSON: Any coal cars?

Mr. HUNGERFORD: No.

Mr. SANDERSON: Any box cars?

Mr. HUNGERFORD: No.

Mr. SANDERSON: My only object in asking to present my views before the committee this morning is simply this: I think I stated in the House last night what I want to repeat here this morning; to my mind this whole bill is a relief bill, its purpose is to give employment to more men and to increase the hours of employment to many men who are now working on short hours. I would ask Mr. Hungerford if he would take it into his consideration that in addition to the repairs which will go to his own shops he will give as much new equipment as possible to his own shops for his own men; will he do that?

Mr. HUNGERFORD: Well, it is rather difficult to answer that.

Mr. SANDERSON: Will you take the matter into your serious consideration, Mr. Hungerford?

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: They are trying to turn you into a politician now.

Mr. SANDERSON: You will do that?

Mr. HUNGERFORD: Yes.

Mr. SANDERSON: That is all, Mr. Chairman; I thank you for the privilege extended to me.

The CHAIRMAN: That is all right, Mr. Sanderson.

Mr. TUMMON: I regret I was not here earlier but I had to be in another committee. It has been mentioned to me on several occasions that the railway has considerable equipment, some of which has not been used very extensively. This equipment has been placed on sidings, or has not been used, at any rate. That perhaps could be utilized by being repaired or rebuilt. What I am interested in is this: That no great amount of the bill that was passed by the House last night be used in buying new equipment for the railway if this old equipment can be remodelled and rebuilt to serve the same purpose. I am not familiar with the facts, but I think, nevertheless, that this is a point we should have cleared up.

Mr. HUNGERFORD: Well, the situation is this. We have a lot of equipment awaiting repairs, but it is not being repaired because we have not got the traffic to warrant it.

Mr. TUMMON: What is that?

Mr. HUNGERFORD: We have a lot of equipment awaiting repairs, but there is no object in repairing it because we have a sufficient quantity of that particular kind of equipment available for service to meet the service required. We have not equipment of the type that we propose to buy now, available for repair.

Mr. TUMMON: That is the point I want to get. I presume that you now want a certain type of equipment.

Mr. HUNGERFORD: Yes.

Mr. TUMMON: That while there may be a considerable amount of equipment available for certain uses, it is not suitable to be repaired or rebuilt for the purposes for which you want this new equipment?

Mr. HUNGERFORD: That is quite right.

Mr. TUMMON: Are you making any provision for passenger coaches or equipment?

Mr. HUNGERFORD: No.

Sir EUGÈNE Fiset: Mr. Chairman, last night the Minister proposed an amendment to Bill 63, and we could not get exactly the substance of the amendment. I wonder if Col. Smart has the amendment with him.

The CHAIRMAN: Did you vote for it?

Sir EUGÈNE Fiset: We all did.

Col. SMART: There were two amendments.

Sir EUGÈNE Fiset: The one I had reference to is the one that authorizes the Minister of Finance to purchase equipment instead of the officials of the Canadian National Railways. I was not quite sure what guarantee was offered in regard to the second amendment, especially.

Col. SMART: I have not the amendments here.

The CHAIRMAN: Does that conclude that point? We have the motions I spoke of at the beginning, and we have the budget, which we have not gone through. We did vote the money, but I think we should take up the budget, which I think will provoke a good many questions.

Hon. Mr. EULER: You propose to leave the motions until the Minister is here?

The CHAIRMAN: The Minister is coming back. He has a good deal to say about these things.

Hon. Mr. EULER: Almost everything.

The CHAIRMAN: We shall now deal with the budget of the Canadian National Railways for the year 1935. You will find it in this ochre coloured book. On page 1 appears a summary and a schedule. What is the schedule, Mr. Fullerton?

Mr. FAIRWEATHER: Schedule 1 is the summary.

The CHAIRMAN: What is it a schedule to?

Mr. FAIRWEATHER: Schedule to the vote.

The CHAIRMAN: It is just a division?

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: The first is a summary; the second is a schedule to the first and does not show anything. Do you not think we had better begin with the details? Turn to schedule 2, the second page, Net Income Deficit. Will the gentlemen of the committee just draw attention to what they think they would like information on. Then follows Operating Revenues Deficit, excluding Maritime Freight Rates, 20 per cent contribution, which is a contribution from the government under the act; total operating revenues; operating expenses; net revenue; other income debits or credits—what is that?

Mr. COOPER: Taxes, joint facility rents, dividend income, interest on unfunded debt—

Sir EUGÈNE Fiset: What are you reading from?

The CHAIRMAN: Schedule 2, details. I have got down to the fifth line.

Col. SMART: Schedule 3 gives you those funded debts.

The CHAIRMAN: Interest on funded debts due the public, \$54,000,000; income requirements—

Mr. MACMILLAN: What do you mean by that?

Mr. FAIRWEATHER: That is the amount by which our income falls short of our outgo on operating account after paying our fixed charges. The amount required, in other words—

Mr. MACMILLAN: That is your operating losses?

Mr. FAIRWEATHER: You would not call it operating losses; these are income losses.

Mr. MACMILLAN: Break it up.

Mr. FAIRWEATHER: You can see from the statement here we would take in \$180,000,000 estimated revenue and we will pay out \$163,000,000 in operating expenses, which leaves \$17,000,000 as a balance. From that we have other income debits and credits of \$6,000,000, which brings it down to around \$11,000,000—

Mr. MACMILLAN: What would the other income debits and credits be?

Mr. FAIRWEATHER: That is everything, sir, except what we technically know as operating expenses. It includes taxes, dividend income, joint facility rents, everything.

Mr. MACMILLAN: It leaves a balance of something over \$44,000,000.

The CHAIRMAN: It does not include interest on debt owed to the government.

Mr. FAIRWEATHER: No. It shows the \$54,000,000 interest requirements and the income deficiency \$44,000,000; then there is \$1,000,000 profit and loss which are items not shown ordinarily in the Income Account. That makes \$44,800,000. Of that, \$1,020,000 and \$780,000 are non cash items. Therefore the cash requirements after paying all our interest charges to the public, are \$44,000,000.

The CHAIRMAN: You budgetted on an estimated revenue of \$180,000,000?

Hon. Mr. FULLERTON: Yes. We estimate operating expenses of \$163,200,000, leaving an operating profit of \$16,800,000.

The CHAIRMAN: And a deficit at the end of the year of \$44,000,000.

Hon. Mr. FULLERTON: Yes, that is correct.

Hon. Mr. EULER: How do you arrive at \$180,000,000 of revenue?

Hon. Mr. FULLERTON: It is an estimate. Our officers get together and try to figure it out as to what it should be. Last year we made a wonderful shot. We estimated \$165,000,000 and the amount was \$164,902,501; but we are not always so fortunate in our estimate.

Mr. MACMILLAN: It is a sort of shot in the dark.

Hon. Mr. FULLERTON: It is really; but experienced men get together and thrash out the whole thing, try to figure out what the revenue will be as near as they can. We must make some estimate.

The CHAIRMAN: What increase in wages will be carried out this year?

Hon. Mr. FULLERTON: \$5,000,000.

The CHAIRMAN: Representing what?

Hon. Mr. FULLERTON: Restoration of deductions taken from the men.

The CHAIRMAN: Restoration of deductions?

Hon. Mr. FULLERTON: Restoration of deductions, which will amount to about \$5,000,000, American and Canadian lines.

Mr. BEAUBIEN: Can you tell us how much taxes the Canadian National Railways pay?

Hon. Mr. FULLERTON: Yes.

Mr. FAIRWEATHER: The question of taxes is a very indefinite thing.

Mr. BEAUBIEN: You know how much you pay.

Mr. FAIRWEATHER: In the account called Railway Tax Accruals, \$5,241,000; but of course that is not the whole story by any manner of means. That is only what comes within the common classification. The total tax bill including sales tax and other forms of taxation, which are not shown in the account, would amount to a very considerable amount.

Mr. BEAUBIEN: What is the total?

Mr. FAIRWEATHER: \$6,164,000, excluding sales tax.

Mr. BEAUBIEN: What sort of taxes were they?

Mr. FAIRWEATHER: Railway Tax Accruals, \$5,241,857.95; Taxes on Hotel Property, \$141,638.54; Non-operating Property, \$161,570; Separately Operated Properties, \$524,000; Land Department, \$94,798, making a total of \$106,225. Then there is Sales Tax in addition to that, amounting to \$1,075,000.

The CHAIRMAN: Under what statute does the railway taxation come?

Mr. FAIRWEATHER: Our taxes are largely, of course, provincial. We pay no federal tax; it is all provincial and municipal.

Mr. BEAUBIEN: Are they based on income?

Mr. FAIRWEATHER: No; they are based mostly on property valuation or mileage.

Hon. Mr. FULLERTON: We make the best arrangement we can with every province.

Hon. Mr. EULER: Your estimated cash deficit for the present year is practically the same as the cash deficit for the last year?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: Would it not be \$45,000,000?

Hon. Mr. FULLERTON: It is \$4,000,000 better. It was \$48,000,000 last year.

Mr. FRASER: Is the assessed rate standard throughout the Dominion?

Hon. Mr. FULLERTON: For taxation purposes?

Mr. FRASER: Yes.

Hon. Mr. FULLERTON: It is separate in every province.

Mr. FRASER: Separate in every province?

Hon. Mr. FULLERTON: Yes.

Mr. MACMILLAN: Is it the same for both railways?

Mr. FAIRWEATHER: We cannot say as to that.

Mr. LABELLE: It is a question of valuation.

The CHAIRMAN: It is a matter of assessment by the officials.

Mr. FAIRWEATHER: Yes. Railway property is usually assessed so much per mile, although some provinces assess the gross revenues, but when it comes to municipalities, they assess on the valuation of the property.

Mr. HEAPS: Is it not a fact that in many parts of the country the municipalities and the provinces have agreements with regard to percent?

Mr. FAIRWEATHER: That is quite true.

Mr. HEAPS: But some provinces assess on a percentage basis as well as the municipalities?

Mr. FAIRWEATHER: Quite true.

Hon. Mr. EULER: What was the total operating revenue last year?

Hon. Mr. FULLERTON: \$164,902,501.66.

Hon. Mr. EULER: You are figuring on \$180,000,000 this year?

Hon. Mr. FULLERTON: Yes.

Mr. BEAUBIEN: Is your higher estimate being justified so far?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: How much has it fallen short?

Hon. Mr. FULLERTON: I could not tell you right at the moment. Perhaps this may be of interest to the committee. To the end of May 21st our revenue shows an increase of \$946,936 over the previous year, or 1.55 per cent. To the end of April our net revenue shows an improvement of \$445,866 over the first four months of 1934. Now, let us take the Canadian Government Merchant Marine. For the first four months of 1935 our operating results show a betterment of \$85,587, a loss of \$90,520 in 1934, having been reduced to a loss of \$4,933. In regard to the West Indies Steamships, for the first four months the operating results are better than last year by \$50,572. Our hotels—to the end of April our revenue shows an increase of \$94,528 and to the end of April net revenue is up \$35,351. Our dining cars improved for the first three months, \$12,525; our sleeping cars and parlour cars show improvements for the first three months of \$18,150.

The CHAIRMAN: How much do you want of an operating revenue to do away with deficits?

Hon. Mr. FULLERTON: If we had the revenue of 1928 we would have no deficit.

Hon. Mr. EULER: \$314,000,000.

Hon. Mr. FULLERTON: \$312,000,000.

The CHAIRMAN: That was the big year.

Hon. Mr. FULLERTON: In my judgment, if we had a revenue of \$275,000,000, there would be a very small deficit.

Hon. Mr. EULER: An increase of \$115,000,000 over last year.

Hon. Mr. FULLERTON: \$110,000,000.

Mr. HEAPS: What about the increase in your operating costs because of the increased income?

Hon. Mr. FULLERTON: You mean by a return of deductions?

Mr. HEAPS: No; I mean an increase in cost due to more traffic on the road, a greater operating ratio.

Hon. Mr. FULLERTON: Last year out of an increase of \$16,000,000, in gross revenues we made a net of about 47 per cent—the increase in net was 44 per cent. Out of \$16,380,000 increase, we increased the net \$7,209,000.

Hon. Mr. EULER: So far?

Hon. Mr. FULLERTON: Last year.

Mr. HEAPS: How does it compare with this year's increased income?

Hon. Mr. FULLERTON: I just gave it to you.

Mr. HEAPS: How does it compare with operating costs?

Hon. Mr. FULLERTON: I gave it to you up to the end of April. We have not any figures for May.

Hon. Mr. EULER: Would it be fair to say this, Mr. Chairman: That your rate of increase so far has not been nearly so great as it was last year?

Hon. Mr. FULLERTON: You are speaking of the gross?

Hon. Mr. EULER: Yes. I am speaking of your making the \$180,000,000, which is about \$16,000,000 more than last year. In the first third of the year, if I have your figures right, you have \$1,000,000 more than you received last year.

Hon. Mr. FULLERTON: No, we won't make our budget, no question about that. We cannot make it unless something extraordinary happens.

Hon. Mr. EULER: Even if the prospective wheat crop in the west is as good as they expect, it all depends on whether they can sell it or not.

Hon. Mr. FULLERTON: Yes.

Mr. MACMILLAN: It depends on whether it rolls.

Mr. FRASER: What is the percentage increase in your gross for the first five months?

Hon. Mr. FULLERTON: 1.55 per cent.

Mr. FRASER: You are budgetting for an increase of 12½.

Hon. Mr. FULLERTON: Different months bring different revenues.

The CHAIRMAN: The way to compare that would be to find out how that rate of increase compares with the one for the year previous.

Hon. Mr. FULLERTON: Our net at the end of April was \$500,000 over our net in 1934; our increase was \$1,000,000 gross.

The CHAIRMAN: What you say is that if you had \$110,000,000 more of operating revenue, bringing it up to \$275,000,000, you could wipe out that deficit of \$44,000,000?

Hon. Mr. FULLERTON: I would not say we would wipe it out; we would make it look very sick.

The CHAIRMAN: Of course, you cannot tell us very much about the prospects.

Mr. MACMILLAN: You cannot tell us whether that is going to last or not?

Hon. Mr. FULLERTON: I am afraid I would not like to say that.

The CHAIRMAN: I see you have operating expense and you have a sort of summary. Is there any prospect—I will not say prospect—have you any intentions that may result in a decrease in expenditure or anything to lessen that \$44,000,000 in the future? Or are you down to bare bones now.

Hon. Mr. FULLERTON: We are pretty well down to bare bones now.

Hon. Mr. EULER: We have an increase of \$5,000,000 on labour account alone.

Hon. Mr. FULLERTON: Yes.

Mr. HUNGERFORD: That is taken into consideration in arriving at the \$44,000,000 net. It represents improvements of \$9,000,000 net.

Mr. MACMILLAN: That is based on the \$180,000,000.

The CHAIRMAN: If you had not restored that cut and continued on the same scale of wages, you would be \$5,000,000 better off.

Hon. Mr. EULER: We will have to hope, that is all.

Mr. HUNGERFORD: We always have to hope. We cannot determine accurately. If there is a good crop, and there is an indication of it, it will move to a larger extent than last year.

Hon. Mr. EULER: What do you base that on?

Mr. HUNGERFORD: It will have to be taken somewhere for storage.

Hon. Mr. EULER: I see. Even if it remains in the country.

The CHAIRMAN: Your pooling arrangements do not hold out any hope of a substantial saving, a large saving, beyond what you are effecting now?

Hon. Mr. FULLERTON: So far we have not been very successful in bringing about additional pooling arrangements.

The CHAIRMAN: Other than those which you put in at first?

Hon. Mr. FULLERTON: Yes. Other than those which we put in at first.

Mr. HEAPS: Are there any more in contemplation?

Hon. Mr. FULLERTON: They are still under consideration.

Mr. MACMILLAN: You have an item here "co-ordination of facilities." That is the same thing—\$500,000.

Mr. HUNGERFORD: That is contingent account in connection with the possibility of having to build a connecting line in order to give effect to some of these things. At this stage we do not know what will be expended on that account.

The CHAIRMAN: At all events, you do not contemplate any further reductions in personnel or in equipment?

Mr. HUNGERFORD: We are continuously making economies in detail.

The CHAIRMAN: The major ones have been effected?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: Have we not gone as far as expenditures which you will find in schedule 3? Is there any interest on this?

Hon. Mr. EULER: That will have to be increased by \$8,000,000 which we voted last night, will it not?

Hon. Mr. FULLERTON: We do not pay any interest for two years.

Hon. Mr. EULER: I know. It is capital expenditure.

Hon. Mr. FULLERTON: It will not go into the 1935-36 account.

Mr. HEAPS: Do you generally classify repairs as capital expenditure?

Hon. Mr. FULLERTON: No.

Mr. HEAPS: These repairs which are contemplated under this government bill—are they going into the capital expenditure?

Hon. Mr. FULLERTON: No, they are not.

Mr. HEAPS: Will they be paid out of current revenue?

Hon. Mr. FULLERTON: The government must pay the interest on that money. We cannot capitalize it.

Hon. Mr. EULER: That will be charged to the National railways by the government.

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: Is it understood they are going to get that as a gift?

Hon. Mr. FULLERTON: We cannot capitalize that, you know.

The CHAIRMAN: Not until you assume it.

Hon. Mr. FULLERTON: We assume it later on.

Mr. HEAPS: Speaking politically, can the government capitalize it?

Hon. Mr. FULLERTON: I am not responsible for what it may do.

Mr. BEAUBIEN: Is this \$5,000,000 the only capital expenditure the Canadian National railways is going to make on their pool system for the year?

Hon. Mr. FULLERTON: Yes, that is the net amount.

The CHAIRMAN: That is \$5,000,000.

Mr. BEAUBIEN: \$5,279,000.

The CHAIRMAN: That includes right-of-way. Or what does it include? Where are the details of that?

Mr. FAIRWEATHER: The summary is on schedule 2; on schedule 3 you will find the details.

The CHAIRMAN: I do not find the details. I do not find what is to be done.

Mr. FAIRWEATHER: It is made up of a great many small items, and we have them available if you want them.

Mr. HEAPS: I notice in schedule 3 a small item and, perhaps, we might get a statement with reference to it. It is Montreal Terminal development, \$121,287. What do you propose to do with all that work that has been done there on the Montreal Terminals? It is a big question.

Hon. Mr. FULLERTON: I wish you would tell us.

Mr. HUNGERFORD: That money was asked for to effect land settlement.

Hon. Mr. EULER: I see \$940,000 for hotels. Which hotel?

Mr. HEAPS: May I continue with the Montreal Terminals for a moment? Is it contemplated to do anything with all that land and development work that has been done in the city of Montreal?

Mr. LABELLE: There is no amount.

Mr. HEAPS: I want to know if the management have anything in view with regard to the whole Montreal Terminal situation?

Mr. HUNGERFORD: Not this year.

The CHAIRMAN: You are holding property. Mr. Heaps directed his question to what is being done about the property.

Mr. HEAPS: About the whole situation. The railway owns an enormous amount of property. I think about \$40,000,000 worth, if I am not mistaken. I am wondering whether in the near future it is proposed to continue with the matter or whether the management have reached a point where they propose discontinuing entirely. If that is the case, we should have some disposition of the property.

Mr. HUNGERFORD: We are holding all that property.

Hon. Mr. FULLERTON: The fact is it would be impossible to dispose of any of the property to-day. We have a great deal of it rented. The buildings are rented and the rents are being collected and so on. We are doing the best we can.

Mr. HEAPS: There is some revenue coming in, is there?

Hon. Mr. FULLERTON: Yes.

Mr. HEAPS: It is such an unsightly pile to have in the heart of Montreal. I wonder if it would not be as well to develop the property as a railway site or carry out some other scheme there which might, perhaps, take it off the Canadian National system?

Mr. MACMILLAN: Make a sunken garden?

Mr. CANTLEY: Roof it over.

The CHAIRMAN: Are there any other questions?

Hon. Mr. EULER: I was asking about the hotels?

Hon. Mr. FULLERTON: I was getting information on that point. As a matter of fact we had not decided about opening Saskatoon. We put in our estimates \$600,000 for opening the Bessborough hotel, and \$300,000 is for Vancouver, and \$40,000 is for sundries.

Hon. Mr. EULER: Are you going on with it?

Hon. Mr. FULLERTON: Are we opening the Bessborough?

Mr. MACMILLAN: I hope so.

Hon. Mr. FULLERTON: We have not decided, although we rather anticipate that we will open it. The property has been standing idle for a long time. Our hotel manager does not contemplate a very heavy loss in opening it the first year. I think he said it would be about \$25,000. But it has got to be opened some time. It costs a lot of money just to keep it as it is. For instance, take Manaki last year. We made a tremendous loss on it in 1933 and we wondered what we would do—whether we would open it in 1934 or not. Finally we decided to make a reduction in the rates and open it, because we felt if it was allowed to go it would go out of the picture completely. As a matter of fact, we about broke even last year on that hotel—actually on the running of the hotel—and that necessarily meant a good deal of railway traffic, but it is hard to figure that out, of course. We feel that we must open the Bessborough sooner or later.

Hon. Mr. EULER: Would this amount finish it?

Hon. Mr. FULLERTON: Yes, this would finish and open it.

Hon. Mr. EULER: There is the sum of \$300,000 for Vancouver?

Hon. Mr. FULLERTON: They have to do a certain amount of work in Vancouver each year in the hotel. We cannot stop the work altogether.

Mr. BEAUBIEN: In schedule 2 you have "co-ordination of facilities—C.N.-C.P. Act, 1933" \$500,000.

Hon. Mr. FULLERTON: For instance, where we agree with the C.P.R. in the function of duplicating lines. We agree to go over the C.P.R. lines and they agree to go over our lines. We have a good many of those we are working on now, and if we get permission of the railway board we expect to put a number of them through. We have to make certain connections to go onto the other line, and that represents provision for that.

Mr. BEAUBIEN: Would what you would get from the Canadian Pacific railway for the same reason counterbalance it?

The CHAIRMAN: They are doing that work too, are they not?

Hon. Mr. FULLERTON: Yes. The agreements are equitable as between the railways. They divide the benefits. It took about six months to work out the agreement. I think the agreement covered about forty-five pages, and it was a very difficult thing to work out; but the formula was finally agreed upon.

Mr. BEAUBIEN: Has there been very much co-ordination between the two companies?

Hon. Mr. FULLERTON: Yes, considerable.

Mr. BEAUBIEN: Does it work favourably—

Hon. Mr. FULLERTON: In fact, the railways are co-operating all the time on different matters.

Mr. BEAUBIEN: You find that it works satisfactorily?

Hon. Mr. FULLERTON: Well, I would hesitate to express an opinion.

Hon. Mr. EULER: Are you going on with the London station? I am asking some difficult questions this morning.

Mr. MACMILLAN: The member is not present.

Hon. Mr. EULER: It does not matter.

Hon. Mr. FULLERTON: We hope to go on with it. We do not like to make rash promises.

Mr. HEAPS: I would like to refer again to the Montreal Terminal development. I wonder if the management of the railway could give us an idea as to what the minimum cost would be if the present terminals of the Canadian National railway were moved from Bonaventure station to the new site?

Hon. Mr. FULLERTON: Mr. Hungerford made an estimate a short time ago as to the cost of finishing the terminals on a modified scale; he could give you the particulars.

Mr. HUNGERFORD: About six and a half million dollars.

Mr. HEAPS: I feel that you are losing a lot of traffic by having a station where it is now.

Hon. Mr. FULLERTON: There is no doubt about it.

Mr. HEAPS: People will not go there, and will not come in there.

Hon. Mr. FULLERTON: There is no doubt about that.

The CHAIRMAN: Is there a crossing there from one line to the other in Montreal?

Mr. FAIRWEATHER: There is at Dorval.

Mr. HEAPS: Did you ever figure out what the advantages would be to the railways if this six and a half million dollars was spent in new railway station facilities?

Mr. HUNGERFORD: That is difficult to say. With the fluctuating volume of traffic and all that sort of thing it is uncertain. There might be some increased business; it is hard to tell exactly.

Mr. HEAPS: You figure on the broad basis of six and a half million dollars to move your terminal facilities to the new location?

Mr. HUNGERFORD: Yes, in a modified way.

Mr. HEAPS: How much is being spent now on the present site?

Mr. HUNGERFORD: The total expenditure for land and work is \$16,430,000. Out of that the land absorbed about \$10,000,000.

Hon. Mr. EULER: Would you say that with the expense of another six million dollars that you could put it into a condition where you could use it favourably?

Mr. HUNGERFORD: Yes. We could accomodate all the Canadian National trains in Montreal with the exception of only a few. We could accomodate all the other trains.

Mr. FRASER: Would that alter the original plans entirely?

Mr. HUNGERFORD: No, it would be a partial development of the original plans.

Mr. FRASER: You could go ahead and finish it from time to time, could you?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: As an unemployment measure, it would not be a bad idea?

Hon. Mr. FULLERTON: I think it would be a splendid idea.

Hon. Mr. EULER: I think it would be a better idea than spending \$8,000,000 on equipment.

Hon. Mr. FULLERTON: I think it would be a good idea.

The CHAIRMAN: You are going to leave Montreal as it stands?

Hon. Mr. FULLERTON: We cannot do anything else.

The CHAIRMAN: Now we have hotels. Is that what is wanted now?

Mr. MacMILLAN: That is it.

The CHAIRMAN: How about these retirements?

Hon. Mr. EULER: They are pretty much routine, I suppose.

The CHAIRMAN: You are really retiring that amount.

Mr. GRAY: I have been asked to ask the chairman if there is anything in the budget for the new station at Windsor?

Hon. Mr. FULLERTON: My recollection is that there is. That is my recollection.

The CHAIRMAN: Let us see where it is.

Sir EUGENE Fiset: You had better look up Rimouski while you are at it.

Mr. MacMILLAN: And Rivière du Loup.

Sir EUGENE Fiset: No. Rivière du Loup is done.

Hon. Mr. FULLERTON: \$100,000 at Windsor.

The CHAIRMAN: Gentlemen, I have received a letter which is a long one, but I think we should give it some attention. You may remember that Mr. Matthews adverted to a speech made, I suppose, by this man Martin W. Harrison, president of Security Owners Association Incorporated—the members of the committee may remember it—I remember it quite well; and this man has written me under date May 22, a five page letter. He admits having made some mistakes, and he gives the statement of how he made up his figures, and he also says he did not fall into the common error of duplicating that portion of the debt which is carried both in railroad and government statements. We do not want the letter to go on the record. Probably we will file it. It is ex parte, and we cannot ask him questions about it.

Mr. MacMILLAN: Why don't we want it to go on the record?

The CHAIRMAN: Here is a man who makes a statement; we have no opportunity of asking him about it.

Mr. MacMILLAN: Is it in reply to the auditor's statement?

Mr. HEAPS: May I ask who writes it?

The CHAIRMAN: The writer is president of Security Owners Association Incorporated. He made this statement. Mr. Matthews referred to it. As indicated here, people had a misconception of the relationship in regard to the debt of the railways to the government.

Mr. BEAUBIEN: Does he live across the line?

The CHAIRMAN: Oh, yes. He writes from Madison avenue, New York city. We will file it; but I do not think we should spread it on the record. If you care to hear it I will read it.

Mr. GRAY: Refer it to the officers of the company.

The CHAIRMAN: I have marked two or three things that we may want to have discussion on, and during the noon hour the officials can look over this letter. Now, gentlemen, we have these two motions.

Mr. MacMILLAN: Mr. Chairman, in regard to these retirements and maturing capital obligations, is the Canadian National now selling their own bonds or does the government sell them? In the old days they guaranteed these, and there was a slight—

Hon. Mr. FULLERTON: The last issue was disposed of by the railway itself.

Mr. MacMILLAN: When the Canadian National markets its own securities it does so with the consent of the Minister.

Hon. Mr. FULLERTON: They always get the consent of the government.

Mr. MACMILLAN: The question arose that you had to pay a little more, or you did not get quite as much as the government gets in the sale of its securities.

Hon. Mr. MANION: That is true; generally speaking guaranteed bonds have not sold quite as high as direct government bonds. Generally speaking that has been true.

Mr. MACMILLAN: Is it the function of the Bank of Canada to put out issues of this kind?

Sir EUGÈNE Fiset: They could, if you authorized them to do so. The first bill brought down in the House provided in the body of the bill that all loans being offered by the Canadian National Railway were to be offered by the Department of Finance. We had a change of policy last year, and we have a change of policy again this year. That is exactly what we were discussing while you were away, sir. Last night you proposed an amendment to Bill 63 with regard to the terms of which none of us appear to be exactly informed. We would be extremely glad if you could possibly give us the substance of that amendment to-day.

Hon. Mr. MANION: You mean, the amendment I moved to Bill 63?

Sir EUGÈNE Fiset: Yes; the second amendment, authorizing the Minister of Finance to purchase equipment in accordance with the schedule provided. We are not exactly clear as to how that is to work.

Hon. Mr. MANION: I will try to make it clear. The original idea was that the government was to guarantee equipment purchase notes with which the equipment was to be purchased. The railways suggested that it might be wise for the government itself to purchase the equipment and take a mortgage on it; therefore, the amendment was merely to give the government power, if it so chose, to purchase the equipment instead of guaranteeing payment for the equipment purchased.

Sir EUGÈNE Fiset: Does that apply to both railways?

Hon. Mr. MANION: They are both in the same position; except that they are not in the same position in regard to repairs. On repairs whatever we lend to the Canadian Pacific for the purpose of making repairs they give us something in the shape of notes promising to pay the money back. So far as the Canadian National is concerned it was found that, or I was so advised by the legal officers of the Canadian National Railway, that they could not charge up to deficit either repairs or interest on repairs. Therefore, we took the power in one of these amendments which I moved to give them the repairs so far as they are concerned. In other words, if they carry out these repairs they will not be charged up as a deficit, it will merely be paid by the government of Canada; it will in a sense be a gift to the Canadian National Railways.

Sir EUGÈNE Fiset: With regard to the purchase of new equipment, what guarantee are you going to exact from either the C. P. R. or the C. N. R.?

Hon. Mr. MANION: We will take the C. P. R.—the same applies I think to the C. N. R., as far as the purchase of new equipment is concerned—we will take back from them a mortgage on it. So far as the Canadian National is concerned, of course, if they can't meet it it will just be a part of the deficit, the deficit will be increased by that amount. So far as the Canadian Pacific is concerned, we will expect them to pay.

Hon. Mr. EULER: Will you have only security on the equipment?

Hon. Mr. MANION: Yes.

Hon. Mr. EULER: Won't that security be impaired over the lapse, say of 15 years?

Hon. Mr. MANION: Of course, a great deal of it will be paid off before that.

Mr. SMART: It is exactly the same as the plan under which they purchase their equipment now. It is a rental purchase scheme, and the railway companies would have to maintain the equipment intact for the full period of time.

Hon. Mr. EULER: If they did not, what would you do—they would have to replace losses, of course.

Mr. SMART: Yes; they have got to maintain it in the position it is in.

Sir EUGÈNE Fiset: In other words, the guarantee is not worth the paper that it is written on.

Mr. SMART: Yes; each year they pay so much but we can still hold them for the full equipment issued. I mean, we have the security of all the equipment but the amount outstanding is reduced each year by the payment of principal and interest.

Hon. Mr. MANION: Undoubtedly what the General says is correct; if you take a hundred per cent mortgage on the equipment the first year it goes down more than the payment made, but you still have the security on the equipment although it is not as valuable as is the value of the security; undoubtedly, that is correct.

Hon. Mr. EULER: Would it not be possible to induce them to put all of their assets back of that special guarantee?

Hon. Mr. MANION: They could not do that, Mr. Euler, for the reason that there are mortgages now on the different assets of the Canadian Pacific; that is one of the reasons why the security takes this form.

Hon. Mr. EULER: I agree, they would have to be secondary to the prior rights.

Mr. BOTHWELL: Is it decided that they will buy the equipment?

Hon. Mr. MANION: There is no definite decision. The bill has now passed in the House, but it still awaits Royal assent and so on. I take it for granted that the railways will go ahead with it. I talked it over with Mr. Hungerford, Mr. Fullerton and others, and they are all anxious to do it. Incidentally, if you have not already asked him, Mr. Hungerford has a statement with regard to what his railway plans to do. You might ask him to give you that statement now. At least, I thought he was going to prepare a written statement.

Mr. MACMILLAN: He has given us a statement on that.

Sir EUGÈNE Fiset: May I point out, Mr. Chairman, that this is a special measure, and the heading of the measure is "Relief"; and the bill as introduced in the House was introduced as a relief measure. That is the reason why in view of the special circumstances provision for both the C.P.R. and the C.N.R. was included in the bill; for they are special circumstances, there is no doubt about that, and we have extremely little hope I think of getting a refund of whatever loans we make to both of the railways.

Mr. LABELLE: You cannot deprive the bond owners generally of the trust deeds. There will be a guarantee of the equipment.

The CHAIRMAN: This equipment does not come under the ordinary mortgage covering the assets of the railway.

Mr. MACMILLAN: Isn't it the same, Mr. Chairman, as the Philadelphia proposition, except that you save 25 per cent on the cost?

Hon. Mr. MANION: No. Under the Philadelphia arrangement the railway concerned paid 25 per cent, and the mortgage was for the balance spread over a period of fifteen years. In this case there is no 25 per cent paid, and the government has the total amount.

Mr. MACMILLAN: So that the final result of this thing should be, so far as the security is concerned, that having regard for the business that has been carried on by the Philadelphia arrangement, you have the same security they have except for the 25 per cent paid by the company.

Hon. Mr. MANION: That is correct.

Sir EUGÈNE Fiset: Another thing we were discussing in your absence was the list you referred to in the House last night of at least part of the equipment to be purchased for the railways. Do I understand that that list is not complete?

Hon. Mr. MANION: No, it is not complete.

Sir EUGÈNE Fiset: Would it be possible for you, sir, to give us an inkling of what the Canadian National Railway will purchase as their part. I think you mentioned 20 locomotives and so many refrigerator cars. Possibly you could give us a list of these.

Hon. Mr. MANION: I haven't got that with me, but maybe Mr. Hungerford could give you that information?

Mr. HUNGERFORD: What is that, again?

Sir EUGÈNE Fiset: The Minister has certain details which he gave to the House last night, which were based on reports made by yourself and by Mr. Coleman. Could you give us the details of your intended purchases in so far as your road is concerned?

Mr. HUNGERFORD: I don't know just how it was made up.

Hon. Mr. MANION: I had it last night, it was for both railways. It was a general list, and while I do not recall numbers specifically I know that it did include box cars, gondolas, sand cars, refrigerator cars, passenger cars, and a variety of engines of various kinds—what else was there now, in addition to that, Mr. Hungerford?

Sir EUGÈNE Fiset: You see, Mr. Hungerford told us that there was no intention so far as they were concerned to buy any passenger coaches.

Hon. Mr. MANION: That would be the Canadian Pacific then, because I had a joint list.

Sir EUGÈNE Fiset: You have the list?

Hon. Mr. MANION: Unfortunately it is over in my other office; I thought we were through with that and it is not in this bag.

The CHAIRMAN: I do not know whether you gentlemen from the West will be interested in this or not; Mr. Labelle was good enough to go into some matters that I sent to him, representative I imagine of a disturbed lot of men, objecting to seniority of returned soldiers being interfered with. I submitted the matter to Mr. Labelle and pointed him to the agreement—what do you call the agreement, Mr. Labelle?

Mr. LABELLE: You are referring to Circular No. 68, I think, Mr. Chairman.

The CHAIRMAN: Yes, it is Circular No. 68. As Clause 5 observes—and I think members of the committee should know this because probably you have all been getting some complaints similar to the one I received. It provides:—

(5) *War Service 1914-1918:*

(a) Employees who, while actually in the service of the Company, enlisted in the army, navy or air forces of the British Empire, or any allied nation, and who returned to the Company's service within three months of their demobilization or release from control of military authorities, will be credited with the time spent on active service as if it were in the service of the Company.

(b) Employees who, by reason of war service, were not physically fit to resume duty within three months from date of demobilization, upon satisfactory evidence as to such disability, will be considered as having complied with the three months' ruling, if re-entering service within three months from date of recovery.

(c) Employees who applied for re-employment within three months, but for whom there was no vacancy, will, upon satisfactory evidence, be considered as having complied with the three months' ruling, provided they actually re-entered the service within six months.

Now, a gentleman named Erratt has written me two or three times complaining about the loss of his seniority. Mr. Labelle tells me, at least I infer, that he means that he has looked into this man's case, and there has been no departure from the rules in his case.

Mr. LABELLE: As far as the file about which you wrote me is concerned there was no departure at all. If you think it desirable to have an answer in more detail we will get it for you. I think, Mr. Chairman, and Mr. Fullerton, that the same man wrote to you both and that you have a file on him in your own offices.

Hon. Mr. FULLERTON: There are so many who have written that I do not remember clearly.

Mr. MacMILLAN: I think that this is a matter which can be left to the management for them to deal with.

The CHAIRMAN: In this case this gentleman wanted it brought to the attention of the committee.

Hon. Mr. MANION: Perhaps one of the officers might give to us in a few sentences a statement as to the general treatment of the men who went to the front, in regard to their seniority. What was the practice followed?

Mr. HUNGERFORD: I think it is fully expressed in the language of that circular just read by the Chairman. That is my belief. There are a good many variations and differences of conditions which have led to a good deal of argument on certain occasions. Things have been represented that could not be justifiably allowed.

Mr. HEAPS: Have there been many of these complaints?

Mr. HUNGERFORD: Quite a few, from time to time; there are not very many now.

Mr. BEAUBIEN: In regard to seniority I have had several complaints from men in my constituency, especially from section men, charging that they have been deprived of their seniority through others "bumping" them at different places, that they have been "gypped" out of their seniority. I have taken the matter up with the officials in Winnipeg myself, with the railway company. As far as I can find out the whole question of seniority is left to the officers of the men's organization. The question I would like to put to Mr. Hungerford is, if the organization of the men themselves through certain influences or otherwise gyp a man of his seniority is there any way of redress?

Mr. HUNGERFORD: The question of seniority involves an almost endless story. From time immemorial there have been disputes about the seniority as the result of lines being acquired and consolidated. Every time you acquire a little branch line you had this question crop up. It arose in its largest form when a number of the constituent railways which now form the Canadian National Railways were consolidated. The first amalgamation took place in 1918 between the government railways and the Canadian Northern, in 1920 the Grand Trunk Pacific came in, and in 1922 the old Grand Trunk. A chaotic condition existed for a number of years. It was hard to get an organization worked out, but the railways got together and formulated arrangements satisfactory to the men and themselves. The majority of the men were themselves quite satisfied with it.

Mr. BEAUBIEN: Did these officials organize the railway employees?

Mr. HUNGERFORD: I am speaking now of the running trades, we had our greatest difficulty with the running trades—the engineers, the firemen, the con-

ductors and the trainmen. This condition went on until the latter part of 1925. It was in 1925 as a matter of fact that the organizations themselves decided they could not agree as between themselves and the various groups appealed to their Grand Lodge officers to get together and formulate some kind of a scheme that would be generally fair under the conditions. That is what was done, and it was done in collaboration with the management. We took the broad stand that in determining the relative position of the men and their seniority that the organizations themselves had a great background of experience, and also they had rules of their own applicable to their members, and to a very large extent they formulated the agreement of 1926. The company stipulated, however, that in determining the seniority districts geographical location was to a certain extent to be considered. We also facilitated the work of investigation. The result of it was a general agreement signed by all of the Grand Lodge officers of the various organizations concerned. It was made effective on the eastern lines, that is on lines each of Fort William, immediately. There were injunction proceedings in the west that had the effect of delaying application of the agreement in the west for almost two years. Finally the injunctions were dissolved and the agreement was made effective there. Well, almost immediately there were protests of all kinds, and the agreements have since been revised, on the eastern region at least once, and in the west two or three different times because of efforts to meet objections, but this was always done through negotiations between representative organizations and the management. These are questions which cannot be settled to the satisfaction of all concerned; no matter what you do you still have complaints and protests from some men because all men cannot have the same job—and that is the root of the whole trouble.

Mr. BEAUBIEN: The point I wanted to make, Mr. Hungerford, is this: Supposing a man has been laid off on account of the depression during the last few years, or suppose he has been "bumped" by somebody else; this man makes a claim that he has more seniority than other men working—I mean, speaking of the divisions in the west—according to the officials of the organization evidently they have this seniority established, but this man claims that he has been gyped out of his seniority by even the officials of the organization. In such a case can the man secure redress on appeal to officers of the Canadian National Railway?

Mr. HUNGERFORD: Only by going to the organization.

Mr. BEAUBIEN: You can do that?

Mr. HUNGERFORD: If we are successful in our negotiations.

Mr. BEAUBIEN: In such a case as that could you get redress for a man? Supposing I could prove that my seniority is higher than what is given to me by the officials of the organization of the men; supposing I could prove that to the railway company, and the officials of the union do not obtain any representation for me, can the Canadian National Railway officials readjust that seniority?

Mr. HUNGERFORD: I cannot visualize a situation such as you describe in view of all that has gone before.

Mr. BEAUBIEN: You have had no cases of that kind before you, or any evidence of such cases?

Mr. HUNGERFORD: If the evidence was clear in regard to that, so far as my experience goes, the officers of the organization would be the first one to want it redressed.

Mr. LABELLE: They have the right of appeal, too.

Mr. BEAUBIEN: I am speaking of Canadian National officials. The point I want to make is this: I had a case of that description and I spoke to some

of them about it, one of them I think was a Mr. Devonish in Winnipeg. As far as I could get it from him, the whole question of whether a man's seniority was rightly established or not rested with the officials of the union.

Mr. HUNGERFORD: It is a matter of negotiation between the company and the organization.

Mr. BEAUBIEN: These negotiations are pretty hard to bring about.

Mr. HUNGERFORD: You cannot speak in general terms. You have to know the details of the case, and then we can give an intelligent answer. I shall be very glad to report fully on any case you have.

Mr. LABELLE: Personally I am acquainted with many cases in Montreal. I always study the files. I have yet to find an injustice suffered by any man, because he has the right to appeal. Some of them do not take advantage of that right; but they have the right to appeal within six months.

Mr. BEAUBIEN: His only right of appeal is to the Grievance Committee of the organization.

Mr. LABELLE: The justification body.

Mr. HEAPS: The inference there is that the officials of the union have not dealt honestly with one of its own members, and I do not think it is a fair imputation to make.

Mr. MACMILLAN: It is quite a reflection.

Mr. BEAUBIEN: I am just asking the Canadian National officials if there is any way the officials of the Canadian National Railway can make an adjustment if an injustice has been committed.

Mr. HUNGERFORD: I do not know any way we can force the issue. We can negotiate and do negotiate changes.

Mr. HEAPS: May I ask Mr. Hungerford if he has found in his negotiations with the officials of the organization any effort being made to create injustices on any of its members?

Mr. HUNGERFORD: I have never run across a case like that.

Mr. HEAPS: Have you seen any effort or attempt made to mispresent?

Mr. BEAUBIEN: I am not making an accusation of misrepresentation, Mr. Heaps. I do not want you to put words in my mouth. All I say is this: Certain men made representations to me that they were gypped of their seniority by officials of their order, and when I took the matter up with Mr. Devonish I was given to understand, or the impression was left with me, that the whole question of seniority rested with the officials of the order.

Hon. Mr. MANION: May I say a word in that regard, because as Minister I have had many letters along the same line. Is it not true that due to the Montreal agreement, it is in a sense the greatest good to the greatest number? In other words, there may be some cases of injustice, and there are some cases of injustice that simply cannot be straightened out. Is not that in a general way correct?

Mr. HUNGERFORD: Substantially, yes.

Hon. Mr. MANION: That is my understanding. I have had many cases of it, and due to the fact the Canadian National is made up of the old Grand Trunk on the one hand and the Canadian Northern and the Intercolonial and the different subsidiaries, it is impossible to settle satisfactorily the disputes which have arisen. There are cases of injustices which simply cannot be straightened out.

Mr. BEAUBIEN: I understand that, but there are not the disputes I am talking about. I know under the agreement there would be injustices in the matter of seniority which are unavoidable. I know that; but once you have established

seniority in a certain division after the agreement and the man claimed he was gypped out of the seniority and could not get any redress, it is different. That is what I am talking about.

The CHAIRMAN: His own organization.

Mr. BEAUBIEN: His own organization; I have several representations made to me to that effect and I want to find out if there is any way the officials of the Canadian National can give this man his seniority, if he is entitled to it.

Mr. HEAPS: In the case Mr. Beaubien has raised, I wonder if you would give full facts to the officials of the Canadian National and let them look into it; because I have often been asked to handle individual cases and when I have come to look into it from the other side I have found that facts were quite different from those represented.

Mr. BEAUBIEN: I took this matter up with Mr. Devonish in Winnipeg, and as far as I could gather from his remarks, the whole thing rested with the officials of the union.

The CHAIRMAN: Which union, Canadian or international?

Mr. BEAUBIEN: Most of those fellows were sectionmen.

Hon. Mr. EULER: As a matter of principle, if it came to the point where the opinion of the railway conflicted with the opinion of the union, which would govern?

Mr. HUNGERFORD: Well, it is hard to say. No condition of that kind has arisen yet.

The CHAIRMAN: This man has written me as Chairman of the committee—he is from Winnipeg.

Mr. HEAPS: What is his name?

The CHAIRMAN: Erratt. I ask that this case be looked into and a letter written to him.

Mr. HUNGERFORD: I shall be very glad to do it.

The CHAIRMAN: That completes the individual cases? Mr. Gray and Mr. Euler indicated that they had a few questions to ask and I suggest we leave them until four o'clock.

Mr. GRAY: Before we adjourn I should like to say this: I quite realize it is the desire of the committee to close as rapidly as possible. I had hoped that the three trustees would be here to-day, because I had some questions I proposed to ask to the individual trustees if they were here. Mr. Morrow is not here. Is there any chance of him being present at any of the sittings?

Hon. Mr. FULLERTON: When I received notice from the Department that the meeting was to be held to-day I immediately wired Mr. Morrow who was at La Tuque, fishing. I had a wire from him on Monday saying that he would be here; but I cannot exactly see how he can get here before one o'clock, because the way the trains run I doubt if he could be here before one o'clock. He wired me he would be here to-day.

Hon. Mr. EULER: He may be here at four o'clock.

The committee rose at one o'clock, to resume again at 4 p.m.

The committee resumed at four o'clock.

The CHAIRMAN: Gentlemen, I think the only thing we were going to discuss further in regard to this report is the writing down. I do not know whether it is my fault or not, but a certain matter entirely escaped my notice. As a lawyer I suppose I should have known it, but I did not because it is not in any official report as yet. But the action taken in the Ontario courts by a Mr. Lovibond which I know pretty well up to the finish, the Ontario courts, has entered a new phase that makes all this discussion impossible in my view.

Mr. Lovibond was a man who took an action in regard to the Grand Trunk stock and when the action was tried it was dismissed because it was held that he impugned the title of the crown and he had no right to take the action calling into question the validity of the acts taking over the Grand Trunk and the obligations and all that sort of thing, because he had no fiat and his proper action was by a petition of right.

Mr. GRAY: And he had been refused a fiat.

The CHAIRMAN: Now, that is my difficulty. It went in various ways from the first judge who was the chief justice of the high court, then to Mr. Justice Kerwin, and there was an appeal by the plaintiff to the court of appeal from Mr. Justice Kerwin's judgment declaring that the man had no right of action and dismissing his action. The court of appeal dismissed the appeal, so that up to that point Mr. Lovibond was out of court. Then he sought for an order allowing him to appeal to the privy council, and an order allowing appeal was made by Mr. Justice Middleton, if I remember rightly—I have the report here but have not had the time to go through it—an appeal was taken from Mr. Justice Middleton's order to the full court of appeal in Ontario, and the appeal was allowed refusing leave to appeal to the privy council on the ground really that there was no sum of money involved. It was only a moot question as to the jurisdiction of a court which was involved, and no sum of \$4,000 or more was involved, which is the basis of an appeal to the privy council. Up to that date the courts were through with Mr. Lovibond, but since this committee adjourned he has made an application for leave to appeal to the privy council—that was made since we adjourned, some time in the last few weeks, and I knew nothing about it; it was called to my attention just within the last half hour or hour—and leave to appeal has been granted. So the whole matter is sub judice; it is all for determination. The privy council has given leave. The appeal is to be heard by the privy council and that appeal involves the validity of the acts taking over the Grand Trunk stock and the whole business.

Hon. Mr. EULER: Surely you are not suggesting that my motion is out of order.

The CHAIRMAN: I am suggesting exactly that. We should not in parliament discuss this matter as long as it is in the courts.

Hon. Mr. EULER: Mr. Chairman, I am not a lawyer or a son of a lawyer. However, I have a bit of common sense judgment if I may put it that way. I will submit to you that my amendment has nothing to do whatsoever with that question. The rights of the Grand Trunk shareholders are not mentioned.

The CHAIRMAN: No, the stock is.

Hon. Mr. EULER: No. The stock is not mentioned.

The CHAIRMAN: Certainly it is involved in the recommendation.

Hon. Mr. EULER: And besides that, if the chairman so ruled, the amount at issue with regard to the Grand Trunk stockholders is only a fraction of the amount involved in the recommendations of Touche and Company; and if you care to do so you can exclude that from the discussion altogether.

The CHAIRMAN: It is all in one report. It is all involved in the question of writing down, and how we could deal with it part and parcel is beyond me.

Hon. Mr. EULER: I should say, with all deference to yourself, sir, it is a most extraordinary proceeding that a parliamentary committee cannot discuss anything that it pleases and refer it for whatever consideration they may care to give to it to the managing board of the Canadian National railways. As I say, I am not a lawyer and I do not pretend to know the technical points, but as a matter of judgment I fail to see the point.

The CHAIRMAN: Where is your resolution?

Hon. Mr. EULER: It is in No. 3 at page 137, moved by myself and seconded by Mr. Gray ". . . that the report of Touche and Company be referred to the board of trustees of the Canadian National railways for consideration and report, with special reference to the recommendation of Touche and Company for recasting the capital structure of the Canadian National railways." I would submit that even in the unlikely event that this were referred to the board of management and in the event of the board deciding to accept the suggestion of Touche and Company, I would suggest that the action could not possibly affect the rights of the Grand Trunk shareholders.

The CHAIRMAN: I am going to read from the judgment of the chief justice in the court of appeal:—

" . . . the plaintiff alleges that he was the owner of certain preference and common stock of the Grand Trunk Railway Company; that the same had been illegally transferred to the Government of Canada in the books of the defendant company under cover of certain statutes of the Parliament of Canada which he submits are invalid, and prays for a declaration that the transfers of said stock are illegal and void and for an order directing a rectification of the stock register in accordance with such declaration. He also asks for a declaration for a certain Act of the Parliament of Canada, 1920, 10-11 Geo. V; Ch. 13, being an Act confirming an agreement under which the said government acquired the stock, was ultra vires of the Parliament of Canada. . . ."

Now that is all for argument.

Hon. Mr. EULER: May I suggest this: strike out \$165,000,000 from the discussion and let us deal with the rest of it; there is a great deal more than that involved.

Mr. GRAY: May I point out, Mr. Euler, that I do not think that even that is necessary because as I understand it no part of this \$165,000,000—correct me, Mr. Minister, if I am wrong—is pledged outside the government; and, therefore, a decision even adverse cannot surely affect us: if we have to pay, we have to pay. I would also point out to the chairman that I know this matter has just come to his attention, apparently, but it is not a question of as recent occurrence as he would indicate, because the Prime Minister pointed out as long ago as February 26th, when this matter came up in the discussion of whether we would change the auditors or not—we got into this matter of recapitalization at that time and the Prime Minister pointed out, using it as an argument as you have against being able to undertake this—the Prime Minister pointed out that all decisions against Mr. Lovibond had gone in the Canadian courts, but there was at that time a petition pending to the privy council, and, since then, they have agreed to let it proceed. I again point out, and I agree with Mr. Euler, that I do not think it can possibly make any difference; and to whatever committee this is sent, whether it be to the trustees, as Mr. Euler's motion submits, or to the three deputy ministers, as Dr. Manion's motion submits, surely they would be quite competent, but let us get on with this scheme. We have dilly dallied with it; we had it up last year when Touche and Company first reported on it, and I think all of us anticipated that it would have been dealt with during the year; and it is one of the questions which I proposed to ask of the various trustees this afternoon; it is one of the reasons why I wanted Mr. Morrow here. But let us get on with it and get somewhere. If it is sent to the committee recommended by Dr. Manion, it will not be satisfactory to me, but let us get on.

Hon. Mr. MANION: May I say just in regard to the question as submitted by the chairman that it was not drawn to the attention of either of us until after the House met this afternoon. It was the Prime Minister who drew it to our

attention. I incidentally mentioned this matter to him, and he was very emphatically of the opinion that we should not discuss it here this afternoon. I then asked the chairman—because of the reasons given by the chairman—to talk it over with the Prime Minister. I said, “You are a lawyer and you can discuss it more intelligently than I can”; and he did.

The CHAIRMAN: I had only about a minute; I did not discuss it with him.

Hon. Mr. MANION: That is true, but he has got the Prime Minister's viewpoint briefly; and since then the chairman has looked it up himself, and he is familiar with the matter. In view of the Prime Minister's very strong attitude I should not like to see it put up to a vote at all, although I am not afraid of a vote, it is not that; but I personally think, gentlemen, that a matter that is sub judice should not be discussed. I cannot agree with what Mr. Euler says. There are \$165,000,000 odd worth of old Grand Trunk stocks involved and there is \$100,000,000 worth of Canadian Northern. I do not think that comes into the picture—but the \$165,000,000 of Grand Trunk stock does come into the picture; and I believe in view of the Prime Minister's very emphatic attitude—and the chairman, apparently agrees with him—that I should like to see it shelved, frankly.

Mr. GRAY: Am I right in saying that no part of the \$165,000,000 is pledged outside of the government?

Hon. Mr. MANION: I do not know. I think, probably, you are.

Hon. Mr. EULER: I would like to ask the minister if he cares to say whether the Prime Minister's view is this: that we should not discuss it or that we cannot discuss it. In my opinion he thinks it is inadvisable to discuss it, in which case I would very respectfully disagree with him. On the other score, from the legal point of view, as to whether it is in order, I cannot, for the life of me, see why this committee cannot refer this report for consideration; and it does not follow that anything that the board of trustees may do in regard to it would have any binding power—it has not any possible binding power until it is accepted by the government.

Hon. Mr. MANION: Undoubtedly we could do as you suggest; we could refer it for report.

Hon. Mr. EULER: That is all it is.

Hon. Mr. MANION: That is your motion; but I do not agree that that clears up the difficulty of dealing with it. I made the other motion as an alternative.

Hon. Mr. EULER: Your motion may be out of order, but mine is not.

Hon. Mr. MANION: Mine is an amendment to yours and, therefore, comes first.

Hon. Mr. EULER: I can discuss my own.

Hon. Mr. MANION: I do not know what attitude the chairman takes. I have not discussed it with him. But frankly I am of the opinion that since the lawyers have taken the attitude they have on these matters, that a question of this sort should not be discussed, generally speaking, for fear of prejudicing our position with the Grand Trunk.

Hon. Mr. EULER: That is a matter of its being judicious or not; but as a matter of law, as to whether this motion is in order, I certainly would insist that it is in order. The chairman has read the motion and I will read it again to the committee. Listen to the reading: “. . . that the report of Touche and Company be referred to the board of trustees of the Canadian National railways for consideration and report with special reference to the recommendation of Touche and Company for recasting the capital structure of the Canadian National railways.” That refers merely to the consideration of the report; it does not bind anyone to anything; it cannot possibly prejudice anyone. With

regard to the amendment to my motion by the Minister of Railways, he may be right, that it is out of order. Perhaps it is; but I am not specially concerned with that at the moment. That is his affair. I certainly do think it is quite proper and competent for this committee to debate this and refer it to the board of trustees.

Hon. Mr. MANION: Is it wise to debate it in view of the fact I have stated? Suppose, for example, that our debate in some way aided and abetted, if I may put it that way, those who are intending to sue the Dominion of Canada on this \$165,000,000. Of course, it is only a picuyanne sum in these days when we talk of billions; but at the same time if we should by our discussion prejudice our case is it wise to take any chance on that in view of the fact which has been pointed out, and with which you agree, that whether we do or do not immediately deal with the capital structure of the Canadian National it does not affect the Canadian National railway to the extent of one penny.

Hon. Mr. EULER: That is true.

Hon. Mr. MANION: We all agree; and that being true is there any particular hurry? Might the matter not wait over until the next session of parliament, and be done with it.

Hon. Mr. EULER: I can see no purpose in it.

Mr. GRAY: It has been bandied around for two or three years.

Hon. Mr. MANION: It has been bandied around for longer than that—for ten years.

Hon. Mr. EULER: With regard to your suggestion that we might prejudice the position of the Canadian National railways, I think it is actually the reverse. If there is any tendency in the report—not only a tendency but a definite recommendation—it would be that the Grand Trunk shareholders have no equity, and the longer we leave it—probably I am getting dubious of what the minister and the chairman said—but so long as we leave the Grand Trunk stock at a valuation of \$165,000,000 on the books of the railway I think that puts ammunition into the hands of the shareholders, and this would tend to contradict that. I do not see how we can do any harm by discussing it. Anyway, discussion is not going to do any harm.

The CHAIRMAN: I do not think your last point is correct. I do not think they will take that as evidence. It is not evidence. It has not been adduced as evidence. The principle is that when there is a matter in litigation even the newspapers, and certainly the House of Commons, have always felt that they really should not open that matter for discussion. Mr. Euler's motion is to refer this for consideration and report with special reference to the recommendation of Touche and Company for recasting the capital structure. If they report, then they report. Either it has no value or it has some value. They deal with this in connection with their whole report, and we have a report which has been asked for and which goes to the House of Commons on a matter that is before the courts.

Hon. Mr. EULER: They may report on that point. They may say that with regard to the \$165,000,000 which is in litigation now that they cannot deal with that at all, but they might make a very intelligent and valuable report with regard to the rest of the report of Touche and Company and the recommendation of Touche and Company.

Mr. BEAUBIEN: The discussion has been carried on in all the newspapers throughout the country.

The CHAIRMAN: Not as to the matter that is concerned in this case as far as I know.

Mr. GRAY: Perhaps we need not touch specifically the matter referred to in the case which has been described here. What the motion by the Hon. Mr. Euler deals with is the report by Touche and Company which has been published. Not only has it appeared in the press but it has been discussed here. Mr. Matthews has been on the stand and we have questioned him as to its advisability, and we have discussed it here, not only this year but last year, openly. I may say, Mr. Chairman, that the Prime Minister's hands would have been strengthened, as far as I am concerned, if he had not coupled with the Privy Council petition the other reason which he gave; namely, that the capital structure should stand as a monument to our Canadians of the past.

The CHAIRMAN: We are not concerned with that.

Mr. GRAY: That may be, but it is on record. I am concerned with it, sir, because to my mind it shows the obvious intention of the government if possible not to consider this matter from the very first time it was raised in the House of Commons.

The CHAIRMAN: I do not think so.

Mr. GRAY: I think it certainly does.

The CHAIRMAN: Not at all.

Mr. GRAY: From the time it was first discussed, on February 22, when the question of the appointment of the new auditors was before the House, right down to the present time. Now, I promised the Minister that I would not get onto any controversial subject; but as soon as my friend and colleague the Hon. Mr. Euler proposes a motion the Minister proposes an amendment. For the life of me I cannot see, and I think the Hon. Mr. Euler could make out a perfectly good case for it, why the matter should not be referred to the Board of Trustees. I cannot possibly see how it could possibly prejudice the Canadian National Railways, the Canadian people or anyone else if we discussed this matter; because all Mr. Euler proposes in his resolution is to send this report to the trustees for consideration and report.

Hon. Mr. MANION: May I make one suggestion, Mr. Gray?

Mr. GRAY: Yes.

Hon. Mr. MANION: I have no ulterior motive in this, as I said, I bow to those who have a better knowledge of legal matters than I have in a case such as this; my suggestion is this, that the Duff Commission, so-called—the Royal Commission on Railways—did suggest that one of the matters that should first be dealt with by the trustees would be this very matter. The trustees have not found it convenient so far to deal with the matter, except that the chairman did give us his views.

Hon. Mr. EULER: Are you quite sure the trustees have not discussed it?

Hon. Mr. MANION: I am not sure at all, I am simply making it clear that the only opinion so far received from the trustees has been the opinion of Mr. Fullerton.

Hon. Mr. EULER: So it is under consideration.

Hon. Mr. MANION: All I was going to say was, is it not obvious, and without any motion at all and without any discussion at all, in view of what the trustees have heard here, that this very matter will be considered by the trustees, and that they will report back without any other discussion here, or without the passing of any motion here; and, if both your motion and my amendment to it were quashed, would not the situation really be the same?

Mr. GRAY: Dr. Manion, I would almost be in complete agreement with that—

Hon. Mr. MANION: You might shock me if you were.

Mr. GRAY: —if I were certain that it would be discussed and reported on by the trustees; and if you will allow this committee to stand until I can have before me the three trustees so that I may ask from them what steps have been taken during the year in which this has been before them—because it was mentioned as long ago as the last session, and certainly the last sitting of this committee, by the chairman, that he had read the report and agreed to a large extent with it, and we took it I think all the members of the committee took it at that time that during the year ensuing—that is, 1934—and before this committee would meet this year that the Board of Trustees would be in a position to bring in some report on this subject matter. I may quite frankly tell the committee that the questions I propose to ask are questions directly to the three trustees as to what consideration has been given to this subject matter, what disposition they personally took in connection therewith, and why there has been the delay in bringing out a report. Now, if one could be assured by the Board of Trustees that this matter will be considered and reported upon then I think Mr. Euler perhaps himself would agree to the withdrawal of his motion.

Hon. Mr. EULER: The only objection I would have to that is that the Board of Trustees had before them no request from this committee, and they would feel under no obligation at all to report to this committee.

Hon. Mr. MANION: Perhaps Mr. Fullerton could give us a statement. I have not discussed it with him at all, but suppose he makes a statement that they will go into the matter and report; that should be satisfactory.

Hon. Mr. EULER: Aren't they committing almost a crime by doing this?

Hon. Mr. MANION: I do not think my honourable friend has the right to say that.

Mr. MACMILLAN: In view of what has taken place in regard to the appeal to the Privy Council would the Board of Trustees want to do that now.

Mr. HEAPS: There was nothing to prevent the Board of Trustees from considering anything they want to.

Mr. MACMILLAN: They might examine it and then find that they would not want to make a report until after the findings of the Privy Council had been announced.

The CHAIRMAN: You will recall that the Duff Report recommends:—

This question as well as that previously referred to, dealing with the present involved financial structure of the Canadian National system, should, in the opinion of the commission, have the early attention of the Board of Trustees, which it is recommended should be entrusted with the control and management of the system.

I suppose that is a direction, in a way; that report has been adopted by the House.

Mr. HEAPS: Possibly the Board of Trustees might report at a later date and in the meantime they might take this matter under their advisement. I think that ought to be satisfactory to those who propose the motion.

Mr. GRAY: Leaving it in that state would not satisfy me, just looking at it from the surface. From the fact that this was a duty delegated to the Board of Trustees by the Duff Commission; from the fact that it was dealt with almost immediately by Touche & Co., and that they filed a report with the Board of Trustees; and from the fact that the Chairman last year stated that he had read the report and agreed with it I am satisfied that this matter surely has been discussed. And we should know the position that the Trustees have taken or propose to take in this matter before we leave it in this way, in the way which has been suggested.

Hon. Mr. EULER: Mr. Chairman, another suggestion: Is it not reasonable to believe that if the Trustees have no right to consider this matter of the

Grand Trunk stock—I am mentioning it now, the issue involving \$165,000,000—if they are prohibited by that application from considering that part of it, might not this Committee instruct them to consider the whole report of Touche & Co., their main report? They might report to this Committee their finding, stating then that as far as a certain portion of the amount involved is concerned that in view of the litigation now proceeding they can make no report or recommendation with regard to that one item. What I want to bring out is this; surely every member of the Board of Trustees is conversant with what is right and proper in connection with a matter of this kind, and they will do what is right and proper; and when we merely suggest that they consider it and report they may make whatever report they please; they may say they will not report at all.

Hon. Mr. MANION: You have suggested that; suppose you let it go at that.

Hon. Mr. EULER: Why not do it in that way?

The CHAIRMAN: Because, Mr. Euler, we are taking a definite part in it, and through us Parliament is taking a definite part, and we would all be regarded as doing what I think we should not do. I can't see it myself.

Hon. Mr. EULER: Do you so rule, Mr. Chairman?

The CHAIRMAN: Yes, I so rule.

Mr. MACMILLAN: You will recognize that the committee should not proceed with the matter while it is sub judice; isn't that the idea?

The CHAIRMAN: I say there is a report of Touche and Company which embraces that among other recommendations; they are interwoven. I may be wrong but that is my view.

Hon. Mr. EULER: Would you so rule if I altered my motion and excepted that portion of the report?

The CHAIRMAN: I think I would.

Hon. Mr. EULER: You would still rule it out of order?

The CHAIRMAN: Yes; you have one report of which this is an integral part.

Hon. Mr. EULER: Mr. Chairman, if you so rule I will challenge your ruling, if I may.

The CHAIRMAN: I think there is provision in the rules for that; shall I put the motion?

Hon. Mr. EULER: Yes.

The CHAIRMAN: The Chairman has made a ruling to the effect that the subject matter of Mr. Euler's motion, and the amendment thereto by the Hon. Dr. Manion, should not be allowed for the reasons I have stated. Perhaps I had better summarize them: That the matter of the Grand Trunk stock, and the validity of the Act of Parliament authorizing its transfer is now the subject of litigation before the courts, before the judicial committee of the Privy Council. Mr. Euler now appeals from my ruling.

Sir EUGÈNE Fiset: May I call your attention to the fact that this matter was not sub judice when it was before this committee before, this leave has been granted only during the recess and this motion was before the committee before that leave to appeal was granted.

Mr. GRAY: Might I ask for this information: If your ruling is sustained does that preclude members of the committee from questioning or going into what has been done or considered by the trustees in connection with this matter during the past year?

The CHAIRMAN: Those in favour of sustaining the rule of the Chair please indicate; those opposed likewise.

The ruling of the Chair was sustained by a vote of 9 for, and 6 against.

Hon. Mr. EULER: We have nothing more to do, have we?

Mr. GRAY: Where does that leave it, Mr. Chairman? If it is understood by this committee that the trustees are to consider this whole subject matter of the Touche Report on the recapitalization and report—and mind you I emphasize the necessity of a report by the trustees—if that is to be their bounden duty, that they are to consider this and report, then I am prepared not to press the matter at the moment to a greater extent; but if it is merely left in the old position of the Duff Commission or of something that may have been said here, that we have indicated our desire or something of that kind, then I will not be satisfied, sir. I repeat, if it is clearly understood by this committee and by the Board of Trustees that they are to consider and report then I would not press at this time what has taken place in the past. What is the position now? I would like to have your ruling.

The CHAIRMAN: There is no ruling from me, Mr. Gray; we take no action as far as that goes. I do not know what the trustees will gather from the discussion.

Mr. GRAY: Then, I propose to ask for this, Mr. Chairman; that this committee do not conclude its sittings until I can have before me as well Mr. Morrow, another member of the Board of Trustees. I propose to ask Hon. Mr. Fullerton if he will give a very full statement to this committee as to what has taken place since the report of Touche and Company was first filed with the Board a year ago—perhaps not a year ago, because as I recall it we sat in June of last year—and at that time you, sir (Hon. Mr. Fullerton), stated that you had considered it and indicated that you were favourable to it; and more or less indicated at that time, if I recall it correctly, that perhaps the next step would be up to parliament. Since that time we have had from the Minister of Railways and others statements, but there has been no report from the Board of Trustees. I would like to ask you, sir, to indicate what steps the Board of Trustees as a Board have taken in connection with this matter.

Hon. Mr. FULLERTON: As a Board?

Mr. GRAY: As a Board; has it been considered by the Trustees as a Board? I do not know how you hold your meetings, but I presume the trustees meet and consider certain matters as they are brought up; has this particular matter been discussed?

Hon. Mr. FULLERTON: You want to know just exactly what happened?

Mr. GRAY: I want to know exactly what happened since last year.

Hon. Mr. FULLERTON: When I went to the Board on January 1, 1934, I was familiar with the Duff Report and the recommendation contained therein that we should immediately take steps to look into the question of the capital structure. I called for all the material, and there was a great deal of material in connection with the capital structure, I think Mr. Gaston had done a great deal of work in connection with it, and our own officers had done a great deal of work also. I read over all of this material and I think about the middle of January I got in touch with Mr. Matthews and he and I discussed the thing several times very fully. I also discussed the matter with the different officers of the company, and I asked Mr. Matthews to prepare a report, a recommendation. Mr. Matthews prepared the recommendation and that was presented to the Prime Minister. I had a long conference with him about it. Later on Mr. Matthews at my request prepared a further treatise dealing with the subject for the Prime Minister. That also was sent to the Prime Minister. Then I prepared a resolution recommending action along the lines of the Matthews' recommendations. That resolution was discussed at some length before the Board.

Mr. GRAY: Pardon me, before the Board?

Hon. Mr. FULLERTON: Before the Board. It was discussed a number of times but no action was taken; as a matter of fact there were several opinions expressed by the other trustees to the effect that it did not go far enough, that it should go much further, that it would not put us in a position where we could earn anything on the capital that would be left in our capital structure, and that if we got this partial readjustment of capital structure we might preclude ourselves from taking any further action. Well then, if I remember correctly, a change was made in the resolution so as to permit of our making a further application. However, later on I received a letter from the Prime Minister which in effect said that he was not in favour of it; and I have done nothing since, I have made no effort whatever; he said, no, the government is not in favour of it; and I have made no attempt since in connection with the capital structure to do anything, because I concluded it was useless.

Mr. HEAPS: What was the date, approximately, of the last communication?

Hon. Mr. FULLERTON: I think I can tell you.

Hon. Mr. EULER: In other words, the government did not agree with the recommendation of the Duff commission?

Hon. Mr. MANION: I did not get that. That was not a recommendation of the Duff commission. The recommendation of the Duff commission was that the trustees should look into the whole question and report.

Hon. Mr. EULER: They were in favour of the writing down of the capitalization.

Hon. Mr. MANION: I do not think that is true. The government did not oppose any recommendation of the Duff commission at all.

Hon. Mr. EULER: I have not it here, but actions speak louder than words.

Hon. Mr. FULLERTON: The communication from the Prime Minister is dated May 15, 1934.

Hon. Mr. MANION: The government has carried out nearly all the recommendations of the Duff report. I should like to ask Mr. Fullerton one question. You mentioned a report being sent to the Prime Minister; was it sent to me?

Hon. Mr. FULLERTON: No, it was not sent to you.

Hon. Mr. MANION: As Minister of Railways?

Hon. Mr. FULLERTON: I explained that to you, Doctor Manion, in a letter which I wrote in February. I explained to you that being new on the job I had taken this matter up with the Prime Minister; that I should have taken it up with you. I made that mistake.

Hon. Mr. MANION: I don't remember the explanation.

Hon. Mr. FULLERTON: I think if you look up your files you will see I wrote you a letter and sent you an apology for having taken it up with Prime Minister; and explained it was on account of my unfamiliarity with government methods that I had taken it up with the Prime Minister.

Mr. HEAPS: Could not that communication go in the record, Mr. Chairman?

The CHAIRMAN: Not of this committee. A record could be called for in the House.

Mr. HEAPS: I do not want to press it if there is any objection to it; it is personal correspondence.

Sir EUGÈNE Fiset: Mr. Chairman, you know very well if it were called for in the House we would simply be told that we could not possibly get it.

Mr. GRAY: I am not going to press it.

The CHAIRMAN: All the more reason for not putting it on the record here.

Sir EUGÈNE Fiset: The committee is the only place we can seek and get that information. The answer of the Prime Minister in the past has been that

any information concerning the Canadian National Railways could be obtained in the committee, not in the House.

Mr. HEAPS: This is a very important letter, Mr. Chairman. It affects the work of this committee to a very large extent.

Hon. Mr. EULER: I suggest, Mr. Chairman, that the chairman of the board of trustees has already given us the gist of the letter and it might be just as well to have it perfectly accurate as to what the Prime Minister said.

The CHAIRMAN: Why not ask for that in the House?

Hon. Mr. EULER: All right.

Mr. GRAY: Have you anything further to add?

Hon. Mr. FULLERTON: Nothing that I know of.

Mr. GRAY: So that the matter is still in that position?

Hon. Mr. FULLERTON: The matter is still in that position.

Mr. GRAY: This clearly indicates—and I am only going to add a word—that the whole purpose of Bill A, by which we appointed three independent men as trustees to operate and run the railway in order to get it away from any political control—and one has only to think back to the pages of Hansard upon which hundreds and thousands of words were spoken to recall the absurdity of the position in which the trustees now find themselves. The chairman of the board has stated quite frankly the first resolution apparently did not meet with the approval of either Mr. Labelle or Mr. Morrow—(and again I repeat I am sorry Mr. Morrow is not here)—because it did not go far enough. The chairman of the board would have had it passed as it was but the other members were not agreeable, and Mr. Labelle will be able to tell us his reason for his stand. Subsequently the chairman amended the resolution and apparently complied with the wishes of one or both of the remaining trustees. It was then that the Prime Minister came into the picture and said he did not want any rewriting of the capital structure, and apparently the trustees have dropped the matter.

Hon. Mr. FULLERTON: I might explain I felt it was a matter for the government. We could not do anything with the capital structure; it was a matter for the government.

Mr. GRAY: The resolution was drawn up.

Hon. Mr. FULLERTON: We made this resolution.

Mr. GRAY: What I am asking Mr. Labelle is what stand he took with respect to the two resolutions referred to by the chairman of the board?

Mr. LABELLE: I take full responsibility for my action, Mr. Gray. I disagreed with my chairman because I had the Duff report and the Duff report asked me to go a little further and try to recapitalize and take into consideration nearly \$24,414,000 average net earnings per annum. The first thing I heard about recapitalization was the report from our vice-president of finance. I read it carefully and I discovered—I regret I have not my copy with me, because I had some notations of my own in it—that that is a difficult legal problem and the trustees no doubt will be advised thereon by the legal officers of the company. A legal amalgamation would have little effect, and so on. Secondly, reading page 16 of the first report I found it stated "That the Canadian National will still be over-capitalized per mile; that we will have a capitalization of \$55,600 per mile as compared with lines in the United States of \$49,800 per mile, indicating that after the adjustments which are proposed have been made the interest bearing debt per mile of road on the Canadian National will still be 12 per cent higher than that on lines in the United States;" and that if we were going to propose something to parliament we should make a very careful study and at least have the auditors' report and our own report on what should be the real capitalization, taking into consideration the earning capacity of the railway. That is the stand I took from the first day that my chairman spoke to me about it, and I am still of the same opinion.

Mr. GRAY: You received the report from Touche & Company last year?

Mr. LABELLE: Yes.

Mr. GRAY: What action did you take then?

Mr. LABELLE: No other action, Mr. Gray, than what the chairman told you about. The question came up, and my opinion is the same to-day as it was then. We must make a thorough study of the question and present the report in accordance with the Duff report, on the earning capacity of the road.

Hon. Mr. EULER: May I ask the chairman of the board a question? Mr. Fullerton, was the Prime Minister's objection to the particular proposal made by the auditors, or was it in general terms as against any consideration of recapitalization?

Hon. Mr. FULLERTON: Well, the best answer I could make would be to read what he says. I would say it was generally against a writing down of the capital; that what was there should remain.

Mr. GRAY: Does Mr. Labelle say that?

Mr. LABELLE: I say I have not that letter of the Prime Minister.

Mr. GRAY: When Mr. Fullerton first brought the resolution forward, someone, and I take it now it was not you who said it did not go far enough—

Mr. LABELLE: I am one of the parties. I was the first one to say to the chairman it did not go far enough. I take full responsibility for that because that was my opinion, and I am still of the same opinion.

Mr. GRAY: You subsequently recommended something should be done?

Mr. LABELLE: As a matter of fact, if I take the auditor's report, I think the Canadian National will still be over capitalized on a per mile basis, taking into consideration the earning power. Rather than make just a report, I should like to make a good one.

Hon. Mr. EULER: I take it you are in favour of proceeding leading to the lowering of the capitalization. You support the recommendation of Touche & Company?

Mr. LABELLE: If I follow the Duff report, yes, sir, taking into consideration the earning capacity of the railway.

Mr. MACMILLAN: Does the physical valuation not come into the picture at all?

Mr. LABELLE: It may, sir.

Mr. GRAY: Unless some recommendation goes to parliament, have you any hope that the trustees will ever be able to make a recommendation to parliament, having regard to the position you found yourselves in during the past year? Have you any hope of that?

Mr. LABELLE: I am perfectly prepared to do all that is necessary and comply with the resolution of the committee or of the Duff report. Just here, you must not forget there has been a survey made in every department; economies have been effected, and we have been recommending economies—

Hon. Mr. MANION: You must remember the trustees were appointed January 1, 1934 and have been in power a little over a year.

Hon. Mr. EULER: To my mind the thing that stands out particularly is the remark of Mr. Fullerton, that the Prime Minister is entirely opposed to any writing down of the capital structure.

Hon. Mr. MANION: As a matter of fact, I can say the Prime Minister is not opposed to any such thing.

Hon. Mr. EULER: That contradicts what we have heard.

Hon. Mr. MANION: I make the statement the Prime Minister is not opposed to any such thing.

Mr. GRAY: With all due respect to the minister, I entirely disagree, because if one reads page 1200 of Hansard, one finds from beginning to end of his speech that he is totally opposed for the two reasons I have already given, (1) There is litigation pending in the Privy Council, and on page 1200 you will find (2):—

As far as concerns the writing down of the capitalization of any company, it is well known that the methods to be pursued and the reasons for the action to be taken have been settled by long lines of decisions. It is well for this young country that an investment which it has made in railroads and which has become valueless should be constantly before it as a deterrent from practising the same thing in the future.

and so on, and so on. There could not be, I submit, Mr. Chairman, with all due respect to the minister, any doubt, reading what the Prime Minister said on the floor of the House on February 22, 1935, and what he said to the chairman of the board in 1934, as to his attitude, and I think the public will judge from what has been said, that the Prime Minister is opposed to the rewriting of the capital structure of the Canadian National Railways. In addition to that, he has politically interfered with the management of the railways.

Hon. Mr. MANION: I do not admit that at all. I am not quarrelling with what Mr. Gray read; but I say that the Prime Minister is not opposed to a writing down of the capitalization providing there is reason shown for it, and I have a statement from him in that regard as recently as this very day. But it brings forward again the very thing that the Chairman has ruled out of order, and I think quite rightly ruled out of order, a question which is sub judice at the present time. I do not intend to go into the matter further except to say that the Prime Minister is not opposed to a writing down of the capital structure.

Mr. HEAPS: Mr. Chairman,—

Hon. Mr. MANION: May I add this: I do not think, unless the whole object of this discussion is for the purpose of playing politics, that this discussion is relevant. In regard to the statement made by Mr. Gray a moment ago, that the Prime Minister is interfering with the management of the railway, I should like to say that the Prime Minister has not politically interfered, and neither have I. This government has interfered less with the management of the railway than has any government in the past.

Mr. MacMILLAN: May I ask the Minister of Railways a question?

Hon. Mr. MANION: Yes.

Mr. MacMILLAN: Has any member of the government interfered to your knowledge, in a political way, with the Canadian National Railways?

Hon. Mr. MANION: Not at all, not since we came into power. There was plenty of interference before.

The CHAIRMAN: May I ask a question before I forget it? Mr. Labelle, did you say that the general proposal was that there should be a writing down to such an extent that would enable the Canadian National Railway to show a return on its earnings?

Mr. LABELLE: That is the Duff report.

Hon. Mr. EULER: A writing down in the Duff report is recommended, is it not?

Mr. LABELLE: Yes.

The CHAIRMAN: To such a point as would enable the Canadian National to show a return out of its earnings?

Mr. LABELLE: That is the way I read it.

Sir EUGÈNE Fiset: Don't you think, in justice to the Prime Minister, in view of the fact that extracts have been read from the letter, and deductions are being made from that letter that are not justified, that it would be better to have the letter put on the record now? I think it would be.

Hon. Mr. MANION: I have no objection.

Hon. Mr. EULER: The chairman of the board made a distinct statement in reply to myself that the Prime Minister was opposed to any recapitalization, any writing down.

Hon. Mr. MANION: I do not deny Mr. Fullerton's statement.

Hon. Mr. EULER: I think it would be better to let the letter speak for itself, but at the same time I do not want to ask anything that should not properly be given.

Hon. Mr. MANION: The attitude I am taking in regard to the letter is this: I do not think the Prime Minister should be hauled into this matter at all in his absence. That is my feeling about it. It must not be forgotten the trustees are not under the control of the Prime Minister or under my control. The trustees can make any report they like in regard to recapitalization irrespective of the wishes or desires of the Prime Minister or myself, if they wish to do so. There was nothing to prevent them from making a report, and there should be no hiding behind the skirts of the prime minister.

Hon. Mr. FULLERTON: Personally, I could not see what earthly use there was for us to work over a report and present it, if the government were opposed to it.

Hon. Mr. MANION: You did not come to any decision on making a report. One of your own trustees says you did not come to a unanimous conclusion; therefore you could not have made a report.

Hon. Mr. FULLERTON: We did not; but the resolution was up once before, and this letter came in afterwards, and I made up my mind it was useless to bother further with it.

Hon. Mr. EULER: You were quite justified, too.

Mr. GRAY: There is not much use in repeating it, but I should like to say this, that what will happen in years to come is the very thing that Mr. Euler is asking in his resolution, namely, Mr. Chairman and Mr. Minister, definitely to place on record a mandatory order, if one may call it such, for the trustees to consider and report. Now, you see, Mr. Minister, what position we are in. I think you are quite favourable; I feel from what you have said you are favourable that this matter should be considered and reported on, but you are just leaving it, unless, as I said before when I started to ask my question—

Hon. Mr. MANION: As a matter of fact, Mr. Gray, my amendment to Mr. Euler's motion was to the effect that the deputy ministers of Railways, Finance and Justice should deal with this question and report to this committee. Had it not been for the statement of the Prime Minister, and had I insisted that the matter should not be dealt with by the trustees but by the committee of deputees I think I could have got the support of the party to my side of the question to carry my motion, which would have been another method of bringing the report back to this committee. It was only a question of a difference of opinion between Mr. Euler and myself as to how it should be done.

Mr. GRAY: Don't you see now how useless it would be to send it to a committee of three deputy ministers who, after all, must, if they are to be deputy ministers and proper deputy ministers, follow along the lines that the government is thinking, and after what has been shown here, it is clearly the opinion of the Prime Minister, at least, that there should be no rewriting down of the capitalization. It would be useless to send the Touche report to three deputy ministers as a committee, no matter how well qualified they are, and I quite appreciate all three are men of high standing in the civil service.

Hon. Mr. MANION: May I state that that statement has been made in a previous argument regarding this matter. Whether the deputy ministers resent this or not, I resent it on behalf of the deputy ministers, because I know of no

civil servants in any country in the world who are of a higher class of civil servants than the various deputy ministers, the ones with whom I have come in contact. I do not think it is doing justice to the deputy ministers concerned to suggest that because of their positions in the civil service they would not be able to come to a just and fair conclusion in the matter.

Hon. Mr. EULER: The minister has brought this up himself. I just want to add a few words on what you say about the trustees, which you will find on page 171 of the Minutes of Evidence:—

On the other hand, the trustees are the managers, and without reflecting on them in any way, they are prejudiced witnesses when it comes to putting such a question in their hands.

Now, the trustees have not protested that, but I do protest on their behalf. After all, they are the appointees of the government, and I would think they would have the confidence of the government. They were placed in charge of a \$2,000,000,000 business, and now the minister says before the committee and before the country—he said at the time, because I read his exact words—that they are prejudiced, and again these are my own words, it seems to me that the minister pretty nearly owes the trustees an apology when he states they are prejudiced witnesses when they suggest a recapitalization of a business they were charged with administering.

Hon. Mr. MANION: If I did anything wrong, I should not hesitate to apologize. When I do anything that I think is wrong I never hesitate to apologize. I repeat exactly the words, so far as I can remember them, that these trustees are prejudiced witnesses in regard to a matter of this kind. I say that to-day, and I do not say it offensively. My hon. friend would not have brought that up to-day to the extent he has except that he wants to make a little political capital out of it.

Hon. Mr. EULER: You cannot charge me with that.

Hon. Mr. MANION: I have known my hon. friend for a long time and he plays politics as hard as anybody else. I made no reflection on anybody and I make none now. All I have to do is to call my friend Mr. Labelle, for whom I have the utmost friendship and respect, to prove my statement. Let me explain just exactly what my statement was. I am not taking a word of it back. I certainly have no reflection to make on the trustees. Mr. Labelle a moment ago argued that he thought the recapitalization should come down precisely to an earning basis, if I synopsise his words correctly. I do not think that would be a fair method of recapitalizing the Canadian National. If you put it on an earning basis you would put the capitalization of the Canadian National at nothing at all. You would put their resources, their investment as having no value, because they are making nothing on the investment to-day; so if you put it on earning capacity you would simply say that there should be no capitalization at all; no bonded indebtedness of the Canadian National Railways. Why did Mr. Labelle say that? Mr. Labelle said that because he is interested in making the best showing that he can for the Canadian National. That is all to his credit, not to his discredit; but it proves that he is a prejudiced witness because he would like to recapitalize the Canadian National to such an extent that it would have no bonded indebtedness to pay at all.

Hon. Mr. EULER: I suppose the trustees can speak for themselves. My answer to you would be this: the trustees may be wrong, any man may be wrong, but to charge them with prejudice is an entirely different thing.

Hon. Mr. MANION: There is nothing offensive in saying that a man is a prejudiced man.

Mr. MACMILLAN: That is drawing a herring over the trail.

Hon. Mr. MANION: I would be glad to have the trustees make any comments. I have not noticed that the trustees are very hesitant to make comments.

I would be very glad to have them make comments, but I want the same liberty myself, of course.

Mr. MACMILLAN: I would like to ask a few questions.

Hon. Mr. EULER: I would like to ask the chairman of the board whether he regards himself or any of his colleagues as prejudiced in a matter of this kind. Oh, never mind—

Hon. Mr. FULLERTON: I would not say anything about prejudiced witnesses. Naturally we want to get the capital down as far as we can.

Hon. Mr. MANION: That proves my statement.

Hon. Mr. FULLERTON: I know perfectly well we cannot go beyond what we propose, but I think half a loaf is better than no bread. That is why I was in favour of it. To say you are going to cut down to an earning basis, you cannot do it. No parliament would attempt to assume any of the public liabilities, the public indebtedness owing to the bondholders; at least, I would not expect any parliament to do it.

Hon. Mr. EULER: I can understand that there would be a difference of opinion, but I do not like to think that these men who are placed in charge of this business are prejudiced. However, let it go.

Mr. MACMILLAN: I have a number of questions I would like to have answered. I have them all typed out. I find it very difficult to get clear in my mind as to the total of the capital structure of the Canadian National railways at the present moment. I have asked these questions having in view enlightenment for myself. They have been answered several times in different ways, but with the permission of the committee I ask the committee to incorporate my questions into the record.

The CHAIRMAN: Are these questions which you want to ask the trustees?

Mr. MACMILLAN: Yes. Mr. Fairweather will give me the answers. I know I cannot get the answers to-day. On the fourth day of April I asked certain questions in regard to the purchase of some branch line railways. When the committee rose just before the adjournment Mr. Hungerford was good enough to give me the answers, but they were not placed upon the record, and I would like to have these answers placed upon the record by the officers of the road. It will satisfy me to have these questions recorded. They are simple questions. (For answers see appendix "A" hereto.)

Sir EUGÈNE Fiset: If the questions are recorded, I suppose the answers will also be recorded.

Mr. MACMILLAN: Of course. I want the whole thing.

The CHAIRMAN: Do you suggest that these questions should be answered offhand?

Mr. MACMILLAN: No. They cannot be answered offhand.

The CHAIRMAN: Would the committee like to hear the questions? I will read them:—

1. On what dates were Canadian Northern railway system; Grand Trunk Pacific railway system, and Grand Trunk railway system taken over by the Dominion government?

2. What was the profit and loss deficit or surplus of each of such systems on the date it was so taken over?

3. On what date were the Canadian government railways entrusted to the Canadian Northern railway company for management and operation?

4. What was the profit and loss deficit or surplus of the Canadian government railways on the date referred to in question 3?

5. What was the profit and loss deficit or surplus of the Canadian National railways as at December 31, 1922? If available, please show this separately

for each of the systems mentioned in question 1 and the Canadian government railways.

6. What was the profit and loss deficit or surplus of the Canadian National railways as at December 31, 1934?

7. What amounts did the Dominion government advance?

(a) For cash deficits of eastern lines for the years 1927 to 1934, inclusive?

(b) For cash deficits of the remainder of the Canadian National railway system for the years 1932 to 1934, inclusive?

8. Are the amounts referred to in question 7 included in the amount set out in answer to question 6? If not, should they not be included in order to obtain an amount properly comparable to the amounts given in answer to questions 2 and 4?

9. The report of the auditors on the accounts of the Canadian National railway system dated March 22, 1935, sets out on page 23 an amount of \$38,358,332 made up of interest items not recorded in the Canadian National accounts—

Should the whole or any part of this amount be added to the amount set out in answer to question 6 in order to obtain an amount properly comparable with the amounts given in answer to questions 2 and 4?

10. Are there any other amounts which should be added to the amount set out in answer to question 6 in order to obtain an amount properly comparable with the amounts given in answer to questions 2 and 4? If so, please give particulars.

11. The annual report of the Canadian National railways for the year 1934 shows the long term debt owing to the public, loans from the Dominion of Canada with interest thereon and expenditures for Canadian government railways as aggregated \$2,782,677,478—

Does this amount include the amounts advanced as referred to in question 7 and the other amounts referred to in question 10?

Do you want to have these answers sent to you?

Mr. MACMILLAN: I would like to have them recorded in the proceedings. The minutes of this meeting will not be printed for a day or two, and I suppose these answers could be readily got out by the officers of the road. I think they have been given before.

Hon. Mr. FULLERTON: Do you wish us to send them to you?

Mr. MACMILLAN: Is the committee closing its proceedings to-day?

The CHAIRMAN: I hope so.

Mr. MACMILLAN: If you are closing up to-day, I should like to have these answers forwarded to the chairman of the committee and have them placed on record.

Mr. HEAPS: How long would it take to have the answers got ready?

Hon. Mr. FULLERTON: To-morrow. Most of them can be answered without difficulty.

(For Answers see Appendix "B" hereto.)

The CHAIRMAN: Did you make any comments on this letter from the Security Owners Association? It is too long to read.

Hon. Mr. EULER: I move we adjourn, Mr. Chairman.

Mr. STEWART: I would like to ask one question. Here is the annual report, and on page 14 I find the system's net loss is \$89,662,352 for 1934, and last year it was \$97,651,956. Now, on page 5 we are informed that we have saved about \$10,547,488 between 1934 and 1933. I get it that we have saved the

difference of about \$7,989,603. In our net loss there is less net loss in 1934 of \$7,989,603 than there was in 1933. I want to know if that is correct. That loss in 1933 amounted to \$1,878,000 a week and in 1934 to \$1,725,000 a week. You took down our loss \$150,000 a week between the years 1933 and 1934. That is the way I make it according to page 14 of this report. There is a difference as far as I can see, of nearly \$2,000,000 between the savings which you claim to have made and the saving which actually occurred.

Mr. COOPER: You are speaking of two different things: one is what we call cash deficit and the other is a bookkeeping deficit. Our cash deficit as you said is shown on page 3 at the beginning of the report. Cash deficit for 1934 is \$48,400,000 as compared with \$58,955,000 for the previous year, the decrease of ten and a half million dollars. That is a decrease in the cash deficit and is correct. Now, when you come to what we call the book deficit we have charged up there a great many items that are merely bookkeeping entries. For instance, we have interest due the government, an item of something like \$39,900,000 due the government. With accrued depreciation in our accounts, that is a bookkeeping item of \$800,000. We charge income with discount on bonds. Again that is not a cash item; and while all these entries are set up in the first place they are afterwards eliminated in arriving at the cash deficit, which reduces the amount we have to go to the government for.

Mr. STEWART: The difference is the government assumes the responsibility of paying the loans on the money they have advanced and you keep it as a bookkeeping entry. Do I understand it that way?

Mr. COOPER: Yes.

Mr. STEWART: It goes into the consolidated debt of Canada.

Mr. COOPER: The amount of the cash deficit, yes; the balance of the bookkeeping deficit is carried forward on the railway books. That represents this huge figure of some \$785,000,000.

Hon. Mr. EULER: That is already absorbed in the national debt of the country.

Mr. TUMMON: I would like to ask some questions in connection with the appointment of the medical officers in certain places such as Belleville. How are they appointed? Whom do they represent?

Hon. Mr. FULLERTON: It depends on the organization. In some cases they are elected by the men. That is true in the majority of cases in Ontario.

Mr. TUMMON: Under what organization? Do the men have a separate organization?

Mr. FAIRWEATHER: In the Grand Trunk days it was a company-sponsored organization. I think it is called the Grand Trunk Employees' Sickness Insurance Provident Fund which is sponsored by contributions from the men and it is run on democratic lines. The men have their own board of management. The company makes a small contribution toward the cost of management, a very small contribution, and that is all the company's interest in it is. All of the doctors who are engaged by that society are engaged by the board of management which in turn is elected by the men.

Mr. TUMMON: They are engaged by the board of management of the railway?

Mr. FAIRWEATHER: The board of management of that fund,—the board of management is elected by the men.

The CHAIRMAN: Sick benefits and so on.

Mr. FAIRWEATHER: It is a sick benefit society. It runs a mutual insurance scheme, and it also pays in case of accident.

The CHAIRMAN: And each branch appoints its medical officer?

Mr. FAIRWEATHER: Yes. They have a board consisting—I think there are forty or fifty members on the board—and then, of course, they have an organization of section chairmen and things of that character.

Mr. TUMMON: Is that appointment subject at all to the approval of the board of management of the railway?

Mr. FAIRWEATHER: Only in this sense that the medical department of the railway naturally advises the Provident Fund board as to the qualifications of the doctors; that is to say they would say whether a man is a competent doctor. That is all. The men pick their own doctors.

Mr. TUMMON: But the medical officer of the railway has the final say?

Mr. FAIRWEATHER: Oh, no. He advises. That is entirely different from picking.

Hon. Mr. MANION: I suppose he practically never overrules the men?

Mr. LABELLE: That is right.

Mr. FAIRWEATHER: He never has.

Mr. TUMMON: Does the medical officer get a pass on the railway?

Mr. FAIRWEATHER: The medical officers of this society? I could not say as to that detail.

Mr. LABELLE: They have passes in their own territory.

Hon. Mr. FULLERTON: They have passes in their own territory—the region in which they are appointed.

The CHAIRMAN: So that they can attend cases.

Hon. Mr. FULLERTON: Yes.

Mr. TUMMON: I would like to know if that is the fact because we have information that they do not get passes.

Hon. Mr. FULLERTON: Oh, yes, they do.

Mr. LABELLE: I do not know, but I thought the board of railway commissioners intervened in that matter.

Hon. Mr. FULLERTON: Oh, no. In the old days the doctors had passes not only in their own districts but in many cases over the system. The board of railway commissioners cut that down and said, "now, you can have passes in your own district," and I think they give them one pass a year to any particular point they may want to go on the system. That is my recollection. I am not clear about it, but I think that is correct.

Mr. TUMMON: Is that Board of management about which you were speaking a moment ago one which covers the whole system or is it a local board?

Mr. FAIRWEATHER: I explained that this was a society of the old Grand Trunk Railway.

Mr. TUMMON: Yes.

Mr. FAIRWEATHER: And it applies to the former Grand Trunk lines; that is, the lines which were previously Grand Trunk; but does not apply, for instance, in western Canada.

Mr. TUMMON: And is that Board of management about which you were speaking which appoints that doctor, representative of all the different points connected with the society or is there a local board in each place?

Mr. FAIRWEATHER: As I understand it they have what really amounts to both; they have a general board that meets from time to time, and they also

have section chairmen, local district chairmen, who report to the board. They have no authority, all authority is vested in the board of management of the Provident Fund. But for the purposes of administration the section chairmen would act.

Hon. Mr. MANION: When you say, board of management, you mean the board of management of the men.

Mr. FAIRWEATHER: Oh yes, the board the men elected.

Hon. Mr. MANION: I don't want it to get crossed with the Board of Management of the railways.

Mr. TUMMON: Have you any figures to show what contribution the railway makes to that board annually?

Mr. FAIRWEATHER: I think our contribution amounts to \$15,000 a year, the whole thing I think.

Mr. TUMMON: It makes no difference whether the doctor who has been acting is in his usual practice or not, he still holds the position does he?

Mr. FAIRWEATHER: The thing in regard to that, as I say, is that the men themselves determine the doctor.

The CHAIRMAN: Now, Mr. Gray?

Mr. GRAY: Mr. Chairman, I want to say this, in view of the fact that earlier in the day I asked whether or not Mr. Morrow would be present, and we were informed on the opening of this committee that he would not be here certainly until late to-night; I just want to say this that I think it is a matter of regret to the committee, certainly to myself, that Mr. Morrow has not been present up to this time. I did propose to ask a number of questions of the trustees if they were present as a body. There are some that I would like to ask, but I do not propose to ask them because it is not fair that the two of the trustees who are here should take the responsibility for the three. At the opening of the sitting I asked if Mr. Morrow would be present and as I recall it I was informed that he was not then in the country; but later on when he had returned I had anticipated that Mr. Morrow would be present and sit in as a member of the Board of Trustees. At the time the recess was called it was hardly expected that our sittings would only last for one day, or that he would not be present or I certainly would have asked this committee to have Mr. Morrow present. While he may have a perfectly legitimate excuse for being absent, I repeat that I think it would have been quite fitting if Mr. Morrow had seen fit to have been present during the various sittings of this committee.

Mr. TUMMON: Mr. Chairman, I am not altogether satisfied in the matter that I brought up, and I am going to be plain. The doctor whom I have reference to is the Honourable Dr. Faulkner, Minister of Public Health in the Province of Ontario, and he still holds it to-day I believe. I do not think it is fair either to the other doctors of the city, especially in a time of unemployment, that he should continue to hold that position in connection with the railways.

Mr. GRAY: He has a pass anyway, Mr. Tummon.

Mr. TUMMON: He has a pass anyway.

Mr. MACMILLAN: He can't practise his profession and hold that position.

Mr. TUMMON: He is in Toronto all the time.

The CHAIRMAN: Is there anything further? That is what you wanted, Mr. Tummon?

Mr. TUMMON: That is a matter which I think the management should take into consideration.

Sir EUGÈNE Fiset: The management has nothing whatever to do with it.

Hon. Mr. FULLERTON: I do not think we have anything to do with it.

Mr. LABELLE: He is appointed by the local authorities.

Mr. TUMMON: He must meet with the approval of the medical officer of the railway; also, the Canadian National is contributing a certain amount of money toward that fund annually, and that being so I do not see why there is any reason that he should continue.

The CHAIRMAN: You will bear that in mind.

Hon. Mr. FULLERTON: We will look into that.

The CHAIRMAN: We will adjourn, to meet at the call of the Chair.

The committee adjourned at 5.27 p.m. this day, to meet again at the call of the Chair.

APPENDIX A

QUESTIONS ASKED BY MR. F. R. MACMILLAN—APRIL 4TH, 1935 AND ANSWERS THERETO

QUESTIONS

1. The names and location of six branch lines taken over by the Railway Company in 1929	NAME: Quebec Oriental Railway. Atlantic, Quebec & Western Ry. LOCATION: Matapedia to Gaspé.	Inverness Railway. Inverness Jct. to Inverness.	Kent Northern Rly. Kent Junction to Richibucto.	Quebec, Montreal & Southern Ry. St. Lambert to Sorel and Fortierville with Branch to Noyan.	St. John & Quebec Railway. Centreville to Westfield Beach.
2. The following information with respect to each Branch.					
1. The length in Miles.....	202.25	60.79	26.49	190.47	157.86
2. The amount paid.....	\$3,500,000.00	\$375,000.00	\$60,000.00	\$5,920,361.51	\$6,000,000.00
3. The amount required to rehabilitate the Railway.	\$757,129.00	\$361,513.00	\$75,317.00	\$791,961.00	\$131,448.00
4. The amount of the Bonded and other indebtedness on each.	C.N.R. purchased the physical assets for cash.	C.N.R. purchased the physical assets for cash.	C.N.R. purchased the physical assets for cash.	C.N.R. purchased the physical assets for cash.	{ \$6,000,000
5. What portion, if any, of the bonds were guaranteed by the Provincial Governments.					
6. Were any of these lines owned by Provincial Governments, and if so, which.					
7. The operating surplus or deficit on each of said lines in each year since they were acquired.	No.	No.	No.	No.	Yes.
1929	95,495	43,481	9,631	23,214	141,080
1930	471,546	115,773	42,714	43,209	316,466
1931	521,567	99,911	23,987	241,098	217,580
1932	430,830	73,186	26,042	191,333	126,220
1933	367,584	77,507	27,404	150,789	118,398
1934	433,471	65,456	27,418	180,574	134,866
	2,320,493	\$475,314	\$157,196	\$830,217	\$1,054,610
8. The interest charges on each line in each year whether by way of interest or bonded indebtedness or on money used to purchase or rehabilitate the Railways.					
1929	102,083	10,304	1,000	135,676	92,738
1930	178,834	25,285	4,441	306,555	278,697
1931	194,890	29,892	6,268	327,490	279,183
1932	199,379	33,412	6,575	338,232	279,253
1933	203,435	34,505	6,660	335,480	279,333
1934	206,897	35,228	6,758	335,020	279,470
	\$1,085,518	\$168,626	\$31,702	\$1,778,453	\$1,488,674

APPENDIX "B"

QUESTIONS ASKED MAY 28TH BY MR. MACMILLAN, M.P., AND ANSWERS THERETO

1. *Question:* On what dates were Canadian Northern Railway System, Grand Trunk Pacific Railway System, and Grand Trunk Railway System taken over by the Dominion Government?

Answer: Canadian Northern Railway System... October 1, 1917
Grand Trunk Pacific Railway System... March 9, 1919
Grand Trunk Railway System... May 21, 1920

2. *Question:* What was the Profit and Loss Deficit or Surplus of each of such Systems on the date it was so taken over?

Answer: Canadian Northern Railway System... *\$ 2,086,568.08 Deficit
Grand Trunk Pacific Railway System... 22,897,595.62 Deficit
Grand Trunk Railway System... 1,166,499.57 Surplus
* Does not include Land Surplus Account credit of \$37,030,668.39.

3. *Question:* On what date were the Canadian Government Railways entrusted to the Canadian Northern Railway Company for management and operation?

Answer: Canadian Government Railways were entrusted to Canadian Northern Railway for management and operation by Order in Council P.C. 2854—November 20, 1918.

4. *Question:* What was the Profit and Loss Deficit or Surplus of the Canadian Government Railways on the date referred to in Question 3?

Answer: Absorbed in Consolidated Revenue Fund.

5. *Question:* What was the Profit and Loss Deficit or Surplus of the Canadian National Railways as at December 31, 1922? If available, please show this separately for each of the Systems mentioned in Question 1 and the Canadian Government Railways.

Answer: Canadian Northern Railway System... \$120,346,777.37 Deficit
Grand Trunk Pacific Railway System... 76,636,809.59 Deficit
Grand Trunk Railway System... 25,945,844.99 Deficit
Canadian Government Railways... 12,022,469.52 Deficit

6. *Question:* What was the Profit and Loss Deficit or Surplus of the Canadian National Railways as at December 31, 1934?

Answer: \$789,040,675.42 Deficit.

7. *Question:* What amounts did the Dominion Government advance:—

(a) For cash deficits of Eastern Lines for the years 1927 to 1934, inclusive?

(b) For cash deficits of the remainder of the Canadian National Railway System for the years 1932 to 1934, inclusive?

Answer: Eastern Lines... \$ 46,007,202.68
Remainder of Can. Nat. Rly. System... 148,276,305.68

8. *Question:* Are the amounts referred to in Question 7 included in the amount set out in answer to Question 6? If not, should they not be included in order to obtain an amount properly comparable to the amounts given in answer to Questions 2 and 4?

Answer: The amounts referred to in Question 7 are not included in the amount set out in answer to Question 6. The amount set out in answer to Question 6 is according to the certified accounts.

9. *Question:* The Report of the Auditors on the accounts of the Canadian National Railway System dated March 22, 1935, sets out on page 23 an amount of \$38,358,332 made up of interest items not recorded in the Canadian National Accounts.

Should the whole or any part of this amount be added to the amount set out in answer to Question 6 in order to obtain an amount properly comparable with the amounts given in answer to Questions 2 and 4?

Answer: The amount set out in answer to question 6 is according to the certified accounts.

10. *Question:* Are there any other amounts which should be added to the amount set out in answer to Question 6 in order to obtain an amount properly comparable with the amounts given in answer to Questions 2 and 4? If so, please give particulars.

Answer: The amount set out in answer to Question 6 is according to the certified accounts.

11. *Question:* The Annual Report of the Canadian National Railways for the year 1934 shows the long term debt owing to the public, loans from the Dominion of Canada with interest thereon and expenditures for Canadian Government Railways as aggregated \$2,782,677,478.

Does this amount include the amounts advanced as referred to in Question 7 and the other amounts referred to in Question 10?

Answer: No.

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*Cable - Railway and Shipping
... Standing Committee on, 1935*

SESSION 1935

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HOUSE OF COMMONS

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STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

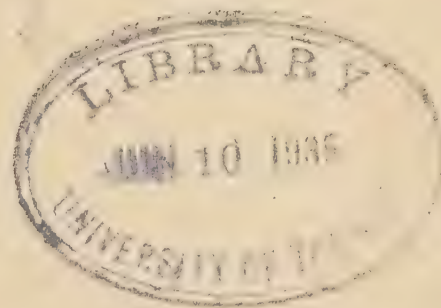
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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Fourth Report

THURSDAY, JUNE 6, 1935



Fourth Report.

OTTAWA
J. O. PATENAUDE, I.S.O.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
THURSDAY, June 6, 1935.

The meeting came to order at 11 a.m., Mr. Geary presiding.

Members present: Messrs. Beaubien, Chaplin, Euler, Fraser, Geary, Gobeil, Hanbury, Heaps, Speakman, Stewart, Tummon.

The chairman presented a draft report which, after due consideration, was on motion of Mr. Hanbury adopted.

The meeting adjourned sine die.

A. A. FRASER,
Clerk of Committee.

FOURTH REPORT

HOUSE OF COMMONS,
THURSDAY, June 6, 1935.

Your Committee, in accordance with Order of Reference, March 4, 1935, has considered the Annual Reports respecting the accounts of the Canadian National Railways and the Canadian Government Merchant Marine, and, in connection therewith has examined the following witnesses:—

- Honourable C. P. Fullerton, K.C.,
Chairman, Board of Trustees,
Canadian National Railways;
- Mr. J. E. Labelle, K.C.,
Trustee,
Canadian National Railways;
- Mr. S. J. Hungerford,
President,
Canadian National Railways;
- Mr. S. W. Fairweather,
Director, Bureau of Economics,
Canadian National Railways;
- Mr. T. H. Cooper,
Auditor of General Accounts,
Canadian National Railways;
- Mr. B. J. Roberts,
Comptroller,
Government Guarantee Branch,
Department of Finance;
- Mr. O. A. Matthews,
George A. Touche & Company,
Accountants and Auditors.

Your Committee had under consideration Bill Number 24, an Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935, and in its second report presented on the 9th of April, 1935, reported the said Bill without amendment. A full explanation of this Bill was given in the House of Commons by the Minister of Railways and Canals.

Your Committee had under consideration Items Number 293, 294, 295, 296 and 297. (Canadian National Steamships and Maritime Freight Rates Act) Estimates of the fiscal year 1935-1936, approved the same and recommended them to the House in its Third Report, dated the 10th of April, 1935.

The Budget for the year 1935 of Canadian National Railways and Canadian National Steamships estimates totals Operating Revenues for the year at \$180,000,000 and Operating Expenses at \$163,200,000. In addition to Operating Expenses there are sundry other items charged against Operating Revenues including interest on funded debt due to the public amounting to \$62,600,000, showing an estimated deficit on the year's operations of \$45,000,000. Of this amount, however, \$1,020,000 depreciation reserve and \$780,000 amortization of discount on funded debt, or \$1,800,000 in all, are not required in cash; so that the estimated net cash requirement on deficit account for the year is \$44,000,000.

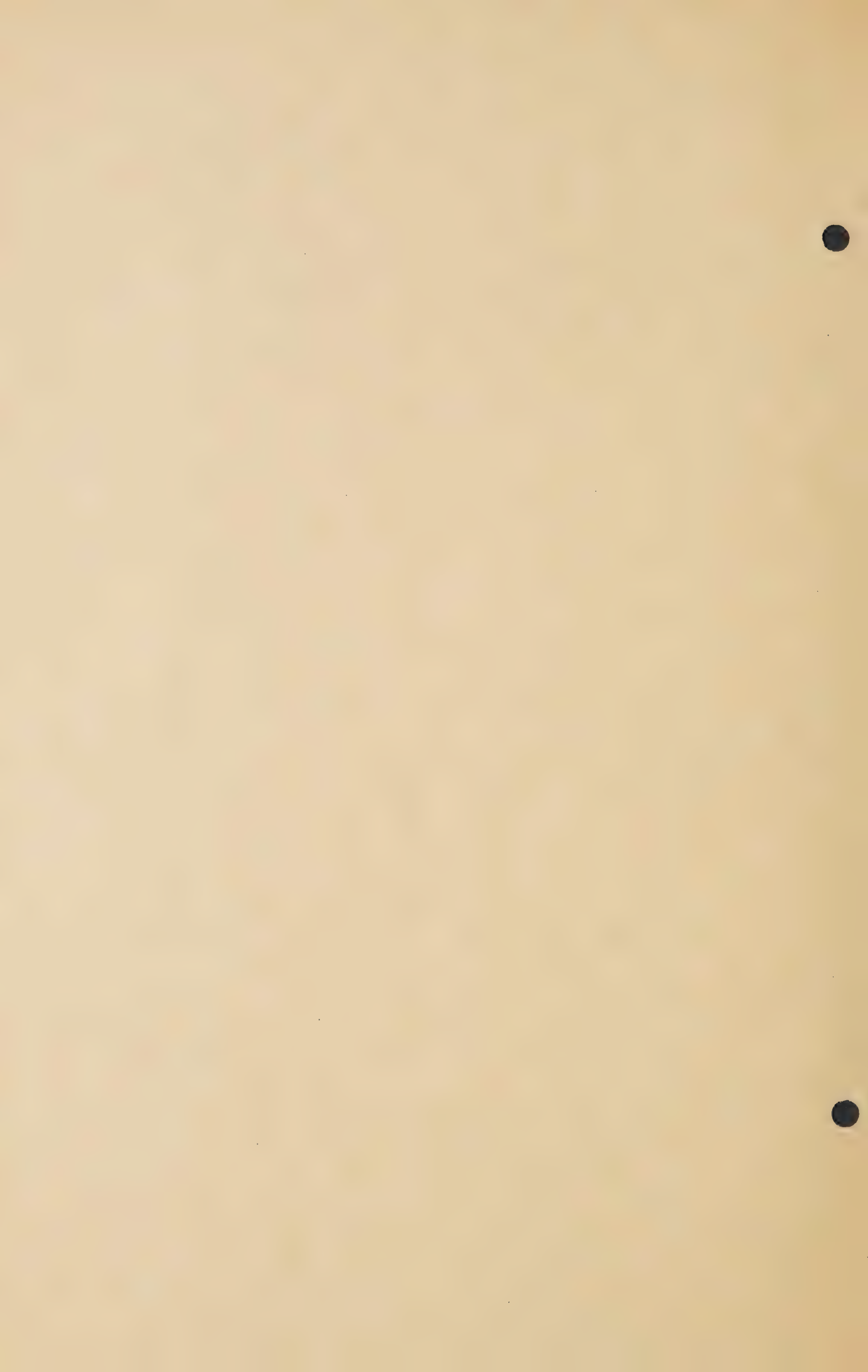
The total capital expenditures for the year, estimated as follows:—

For Additions and Betterments	\$5,279,600
For Investments and Securities representing Capital Expenditures	220,400
<hr/>	
Total of	\$5,500,000

call for no special comment beyond the fact that under the item of “Hotels” some \$600,000 is provided for opening the Saskatoon Hotel, and \$300,000 to continue the construction of the Vancouver Hotel.

All of which is respectfully submitted.

Chairman.



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SESSION 1936

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, APRIL 23, 1936

THURSDAY, APRIL 30, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Assistant Deputy Minister, Department of Finance.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1936

MEMBERS OF THE COMMITTEE

Sir EUGENE Fiset, *Chairman*

AND

MESSIEURS

Barber,
Beaubien,
Beaubier,
Bothwell,
Elliott (*Kindersley*),
Ferland,
Fraser,
Gray,
Hanson,
Heaps,
Howard,

Howe,
Kinley,
McLarty,
Maybank,
Moore,
Parent (*Quebec West and South*),
Stewart,
Veniot,
Vien,
Walsh,
Young.

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

MONDAY, April 6, 1936.

Resolved,—That Standing Order 63 of the House of Commons, relating to the appointment of Standing Committees of the House, be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the accounts and estimates of the Canadian National Railways and Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said Committee consist of Messrs. Barber, Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Fiset, Fraser, Gray, Hanson, Heaps, Howard, Howe, Kinley, McLarty, Maybank, Moore, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh and Young.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 21, 1936.

Ordered,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 23, 1936.

Ordered,—That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee have leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

FIRST REPORT

THURSDAY, April 23, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its First Report:—

Your Committee recommends:

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

2. That the Committee have leave to sit while the House is sitting.

All of which is respectfully submitted.

EUGENE FISET,
Chairman.

SECOND REPORT

THURSDAY, April 30, 1936.

The Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, begs leave to present the following as its

SECOND REPORT

Your Committee has had under consideration items Nos. 426, 427 and 428 of the Special Supplementary Estimates for the Fiscal Year ending March 31, 1937, and item No. 286 of the Supplementary Estimates for the Fiscal Year ending March 31, 1936, and approves of said items of the Estimates.

Your Committee has also considered provision for capital expenditures and debt retirements involving \$9,959,000 which is to be provided by way of loan to the Canadian National Railway Company, and is covered by a Resolution standing on the Order Paper of the House in the name of the Minister of Finance, and approves of same.

All of which is respectfully submitted,

EUGENE FISET,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, April 23, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.30 a.m.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Fiset, Heaps, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Young.

On motion of Mr. Beaubien, Sir Eugene Fiset was elected Chairman.

Sir Eugene Fiset took the chair and expressed his thanks to the members of the Committee for having selected him to direct their proceedings.

The Clerk having read the Order of Reference, it was resolved, on motion of Mr. Beaubien;

That the Committee request permission to print, from day to day, 500 copies in English and 200 copies in French, of its minutes of proceedings and evidence.

On motion of Mr. Young.

Resolved,—That the Committee request permission to sit while the House is sitting.

The Chairman asked the opinion of the Committee as to the best procedure to follow while considering the Accounts and Reports of the Canadian National Railways. After some discussion, the matter was left in abeyance until the next meeting.

It was suggested that the Committee ask leave to reduce its quorum. It was however agreed that this request could be made later if considered necessary.

On motion of Mr. Heaps, the Committee adjourned until Thursday, April 30th, at 11 a.m., when Officials of the Canadian National Railways will be in attendance.

R. ARSENAULT,
Clerk of the Committee.

THURSDAY, April 30, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m. The Chairman, Sir Eugene Fiset, presided.

Members present: Messrs. Barber, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Hanson, Heaps, Howard, Howe, Kinley, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways, and Mr. B. J. Roberts, Assistant Deputy Minister, Department of Finance.

The following documents were distributed to members of the Committee:—

1. Annual Report of the C.N.R. System for 1935.
2. Annual Reports of the Canadian Government Merchant Marine, Ltd., and Canadian National (West Indies) Steamships for 1935.
3. Canadian National Railways and Canadian National Steamships—Summary of 1935 estimated financial requirements compared with actual requirements.
4. Canadian National Railways—Analysis of 1935 operations.
5. Canadian National Railways and Canadian National Steamships—Budget year 1936.
6. Auditors' Report on the accounts of the C.N.R. System for the year ended 31st December, 1935, by Clarkson, Gordon, Dilworth & Nash, Chartered Accountants.
7. Memorandum of depreciation accounting, Canadian National Railways.
8. Special problem of equipment retirements resulting from the depression and highway competition—Canadian National Railways.

The Committee proceeded immediately with the consideration of the Consolidated Balance Sheet at December 31, 1935, as appearing in the Annual Report of the C.N.R. System.

In order to facilitate the presentation of a report to the House this day, the Chairman suggested that certain items of the Supplementary Estimates laid before the House be considered before adjournment.

The Committee then considered item 286 of the Supplementary Estimates for the fiscal year ending March 31, 1936, and items Nos. 426, 427 and 428 of the special Supplementary Estimates for the fiscal year ending March 31, 1937.

The said items of the Estimates were approved, on motion of Mr. Vien.

The Committee also considered an item of \$2,500,000 and an item of \$7,459,000 appearing in the Budget of the Canadian National Railways, identified respectively under the headings "Capital Expenditures" and "Retirement of Capital Obligations," and approved of same.

Ordered that said items of the Estimates and of the Budget be reported.

At 1 o'clock the Committee adjourned until 4 o'clock.

AFTERNOON SITTING

The Committee resumed at 4 p.m.

Further consideration having been given to the Budget of the Canadian National Railways and Canadian National Steamships, an item of \$199,450, being total requirement for Canadian National Steamships, was amended by substituting therefor an amount of \$399,450.

The said item, as amended, was approved without dissent.

The Committee reverted to the consideration of the Annual Report, the officials in attendance being examined on the following:—

- Profit and Loss Statement.
- Consolidated System Income Statement.
- Operating Revenues.

In the course of the Committee's proceedings, leave was granted Mr. R. E. Finn, M.P., and Mr. W. J. Ward, M.P., to address the Committee.

The Committee adjourned at 5.45 until to-morrow, Friday, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
Room 268,

April 30, 1936.

The select standing committee on Railways and Shipping met at 11 o'clock, Sir Eugene Fiset, the chairman, presided.

THE CHAIRMAN: Gentlemen, we have before us at the present time the annual report of the Canadian National Railway System, the report on Canadian Government Merchant Marine, and there are five other pamphlets that are going to be distributed to you by the clerk which deal with an analysis of the operations for 1935 and include a report of the auditor. There is a summary of the estimated financial requirements compared with the actual requirements, and, last of all, there is the budget for 1936. In other years, when considering the report of the Canadian National Railway we usually asked either the president of the or the chairman of the board of trustees if he had any further comment to make on the report than what appeared in the report itself. I proposed at the last meeting that we should examine the report of the board of trustees as it covers, practically speaking, all the road. Some objection was taken to that, and I would like the committee to decide whether we are going to go on with the report of the board of trustees or shall we consider the balance sheet first.

MR. HEAPS: I am wondering if the chairman of the board of trustees would care to make a statement to the committee before we proceed with the examination.

HON. MR. FULLERTON: No, gentlemen, I have no particular statement to make this morning apart from the report which is before you—the report of the trustees and the analysis. We are here with our officers prepared to give you any information that you desire in connection with the operation of the road.

THE CHAIRMAN: Gentlemen, then we will start with the consolidated balance sheet. I think I will ask Mr. Fairweather to enumerate these items one after another. It appears at page 16 of the report. On the other hand, you have a pamphlet prepared by the auditor of the road which deals, practically speaking, with the balance sheet which you can take up at the same time.

MR. HOWARD: You mean the analysis of the 1935 operations.

MR. FAIRWEATHER: I will deal with page 16 of the annual report. The various items are: assets investment in road and equipment; improvements on leased railway property; sinking funds, etc.—they are shown as totalling \$2,207,793,741.18—current assets: cash; special deposits; traffic and car service balances receivable; net balances receivable from agents and conductors; miscellaneous accounts receivable; Dominion government, balance due on deficit contributions; materials and supplies; interest and dividends receivable; rents receivable; other current assets—a total of \$74,787,953.24. Deferred assets: working fund advances; C.N.R. insurance fund; other funds which are deferred assets \$18,837,219.76. Unadjusted debits: rents and insurance premiums paid in advance; discount on capital stock; discount on funded debt; other unadjusted debits \$23,730,922.06. Total of assets \$2,325,149,836.24.

MR. HEAPS: In that item of assets totalling \$2,325,000,000.00 would any of those assets include such things as bridges which have disappeared?

MR. FAIRWEATHER: This statement shows the assets as they were at December 31, 1935 at their book values.

MR. HEAPS: What do you do in the case of ties, rails, bridges and so on which have disappeared and for which the company is still liable?

MR. FAIRWEATHER: Well, any loss that is realized is written out of the asset side of the balance sheet and is written into profit and loss—either from income account or profit and loss.

MR. HEAPS: You have lost bridges in the last ten or fifteen years. The liability which is not in existence today is still with the company, is it not?

MR. FAIRWEATHER: The liability? If a piece of property has actually disappeared it is written out of the assets.

MR. HEAPS: It is not a liability any more?

MR. FAIRWEATHER: It would appear in the profit and loss surplus or deficit.

MR. HEAPS: I take it that this item represents the actual book value of the physical assets of the company?

MR. FAIRWEATHER: As nearly as it can be obtained, the actual ledger value.

MR. KINLEY: Is there the ordinary provision for depreciation?

MR. FAIRWEATHER: There is no provision for depreciation.

MR. PARENT: What comprises that sum of \$18,000,000?

MR. FAIRWEATHER: The large item is C.N.R. insurance fund, \$11,609,000, made up of system securities at par \$4,241,000 and other assets at cost, \$7,367,000. That is a reserve that is set up against insurance.

MR. PARENT: And the interest and dividends receivable \$579,000?

MR. FAIRWEATHER: Well, of course, that simply means we own securities of other companies. You see the corporate structure of the Canadian National is very intricate and we hold securities of other companies.

MR. PARENT: Are they railway companies?

MR. FAIRWEATHER: Well, there are a lot of different kinds; but a good illustration is the Detroit and Toledo Shore Line railway which is a line of railway running from Detroit to Toledo and controlling terminal facilities in Toledo. We own an interest in that property.

MR. PARENT: Net balances receivable from agents and conductors \$4,000,000; what is that?

MR. FAIRWEATHER: Well, that simply means the amount of working capital of the company that is out in the hands of agents. They remit through the banks currently, and that is the amount they are responsible for.

MR. YOUNG: I should like to ask how many distinct entities now comprise what is known as the Canadian National Railways?

MR. FAIRWEATHER: I could get you that information. I think it is somewhere over 100.

MR. VIEN: Is it listed in your annual report?

MR. FAIRWEATHER: You will find a statement in the back of the report.

THE CHAIRMAN: Pages 31 and 32.

MR. FAIRWEATHER: There is a schedule of the companies comprising the Canadian National system on pages 31 and 32.

MR. VIEN: Do I understand you to say that so far as the property in Canada is concerned—both the railway property and the rolling stock in Canada—no depreciation is provided for?

MR. FAIRWEATHER: That is correct.

Mr. VIEN: Therefore, if that is so what is the value of the figures that are given here when you have your rolling stock, some of which has cost you a lot of money and has been depreciated by wear and tear, as well as antiquated conditions, and the same is true of your stations and other investments in railway property? Could you give us an appreciation in your own figures as regards these values?

Mr. FAIRWEATHER: Well, that opens a very wide subject indeed.

Mr. VIEN: I understand we are here on a wide subject.

Mr. FAIRWEATHER: Quite. I wish to make an explanation. I cannot answer in a word. The railways on this continent, including the United States and Canada, do not practise depreciation accounting, except to the extent that they are compelled to do so by governmental authority. Now, in the United States they are compelled to do so for railway rolling stock, but not for any other type of property. In Canada our regulations provide that we shall not practise depreciation accounting; consequently, our accounts are on another basis; what is known as retirement accounting—it is a big question indeed. I am speaking of the railway operators of the United States—the railway operators have opposed the practice of depreciation accounting as not being of any particular benefit to the management or improving the balance sheet as showing the earning power of the property or anything of that character in any degree. In retirement—

Mr. VIEN: What I had in mind, Mr. Fairweather, was this, and I am not trying to be unduly critical: I am simply trying to find out what is the value of those figures for this committee; in what way can these figures help the committee to appreciate the exact value of our property in the Canadian National Railways?

Mr. FAIRWEATHER: Well, these figures, sir, as they stand purport to show the amount of money that is actually put into the property of the system, and which property is still in existence.

Mr. VIEN: Have you any set of figures which would tend to enlighten the committee on what is the actual value of our property?

Mr. FAIRWEATHER: Well, of course, sir, that word "value" is something—are you speaking of the utility value or cost value, or what value are we speaking of? If we talk about depreciated value and all those things, I do not know that I can do better than read a little note here by the Railway Research Service Bureau of England which says, speaking of comparisons: "In Canada the comparable procedure may be entitled 'retirement accounting'; that is to say, the value is written off of the capital account as the rolling stock becomes due for retirement." That is when we write it off. It is not pyramided in the balance sheet; it is written off at the time; it goes out of service—"and its value is debited directly to operating expenditure less any residual value which is charged to material and other accounts." It will be appreciated, that the final result of these two systems of accounting is precisely similar.

Mr. YOUNG: Similar in effect.

Mr. FAIRWEATHER: Precisely . . . "because in each case the value is written off the capital account and the loss charged to operating expenditure, either directly in the case of Canadian methods or indirectly via depreciation accretments." Practically speaking, over a period of time, no matter whether you practise depreciation accounting or retiring accounting you get exactly the same result.

Mr. KINLEY: You maintain your properties up to standard out of revenue.

Mr. FAIRWEATHER: Yes; and when we no longer maintain a piece of property out of revenues we write it off.

Mr. VIEN: And residual value is salvage?

Mr. FAIRWEATHER: Residual value is salvage.

Mr. VIEN: Is that true of rolling stock?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: Is it true of other property as well?

Mr. FAIRWEATHER: Yes, of other property as well. I might say, gentlemen, that if you care to have it we have prepared a little pamphlet bearing upon this point of depreciation accounting.

Mr. VIEN: I think I would like to have it.

Mr. FAIRWEATHER: And also retirement accounting.

The CHAIRMAN: If you look at page 11 of the annual report you will see a paragraph entitled "Retirement of Equipment." You will find there the full explanation.

Mr. FINN: Is this the same system as the C.P.R. has?

Mr. FAIRWEATHER: It is exactly the same in that particular thing. There are differences between our accounts.

Mr. KINLEY: Are you maintaining your properties up to standard?

Mr. FAIRWEATHER: Well, all I can say about that it—I am only expressing a personal opinion—

Mr. HANSON: As good as any other Canadian railway.

Mr. KINLEY: On the main line, yes; but not on the branch lines. Any old stuff on the main lines they send to you on the branch lines.

Mr. VIEN: The consolidated balance sheet is a picture of the actual amount of money that has been invested in the property.

Mr. FAIRWEATHER: And which is still represented by physical property.

Mr. VIEN: And which has not been retired.

Mr. FAIRWEATHER: Yes. Now, on page 17 you will see liabilities. They are as follows: capital stocks owned by Dominion government, \$265,000,000; capital stocks owned by the public \$4,584,000 or a total of \$270,000,000. Governmental grants: grants in aid of construction and so forth \$15,000,000. Long term debt, funded debt unmatured, \$1,154,000,000. Loans from Dominion of Canada: temporary loans obtained for redemption of funded debt \$74,000,000; other loans from the Dominion of Canada, \$679,000,000. Interest on above accrued but unpaid \$495,000,000, or a grand total of \$1,249,000,000.

Dominion of Canada expenditures for Canadian government railways \$405,000,000.

Current liabilities: loans and bills payable, traffic and car service balances payable, audited accounts and wages payable, miscellaneous accounts payable, interest matured unpaid, funded debt matured unpaid, unmatured interest accrued, unmatured rents accrued, other current liabilities, \$45,330,000.

Deferred liabilities \$3,423,000.

Unadjusted credits: tax liability, C.N.R. insurance reserve, accrued depreciation—road U.S. lines accrued depreciation—equipment U.S. lines accrued depreciation—miscellaneous physical property U.S. lines other unadjusted credits, total \$32,926,000.

Corporate surplus or deficit: additions to property through income and surplus U.S. lines funded debt retired through income and surplus U.S. lines appropriated surplus, profit and loss balance—deficit—total \$853,928,000. That figure is in italics. The two balance at \$2,325,149,836.24.

Mr. PARENT: With regard to capital stock owned by the Dominion, is that capital?

Mr. FAIRWEATHER: There are Canadian National stock \$100,000,000 and Grand Trunk stock \$165,000,000—that is common—

Mr. HEAPS: Very common.

Mr. FAIRWEATHER: In the case of the Grand Trunk it is partly preferred stock.

Mr. PARENT: That would be carried at \$1.

Mr. FAIRWEATHER: It is carried in this balance sheet at \$270,000,000.

Hon. Mr. HOWE: I might say that very extensive efforts are being made by the department in conference with the railway companies about writing out of the balance sheet some of those items that are in there. For instance Canadian National stock, as we all know, cost the government \$10,000,000 and Grand Trunk stock cost us nothing; and we propose to write out some of those charges which are fictitious anyway and which are a complete duplication of the public debt. We hope to have that before the committee this year.

Mr. HEAPS: We tried to get that last year.

Hon. Mr. HOWE: It involves a tremendous amount of work, and whether we can do it or not is somewhat contingent upon a case which is before the privy council on which decision has been reserved. The case has been tried but the decision has not been handed down. If the decision is in our favour we may be able to write that out this year; otherwise it will have to go over for another session.

Mr. HEAPS: If we could write out as much as possible of this it would be better.

Mr. HOWARD: Regardless of the decision of the privy council would it not be possible to have before the committee the proposal of what we would do providing the judgment is right?

Hon. Mr. HOWE: Yes, I think we could.

Mr. FINN: When was that case argued before the privy council?

Hon. Mr. HOWE: About a month or six weeks ago.

Mr. VIEN: Is the Canadian National involved?

Hon. Mr. HOWE: No; but while the Grand Trunk securities are in a doubtful position it does not seem wise to disturb the capital structure of the Grand Trunk Railway.

Mr. FAIRWEATHER: "*Certificate of Auditors*".

We have made a continuous audit of the accounts of the National Railways for the year ended 31st December 1935, including a general but not detailed examination of the accounts of all the regional centres and of the audit conducted by the railway's internal audit staff.

The accounts of the railway are kept in accordance with the rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines in the United States.

The investments in road and equipment, miscellaneous physical property and in affiliated companies are shown at their book values which do not necessarily represent their present replacement values.

No reserve is provided for depreciation (except on the rolling stock and certain property of United States lines). When equipment is retired from service the ledger value less salvage is charged to operating expenses or to profit and loss account. Actual pension payments made are charged to operation expenses but no provision is made for pensions payable in future periods.

Subject to the foregoing and our report to parliament, we report that in our opinion the above consolidated balance sheet and related accounts set forth properly the financial position of the National Railways at 31st December, 1935, and the revenue and expenditure for the year ending that date, and are in accordance with the books.

Clarkson, Gordon, Dilworth and Nash.

Hon. Mr. VENIOT: On the question of auditing accounts, would you tell me how you audit your accounts for presentation to the railway commission with respect to Maritime freight rates, 20 per cent reduction?

Mr. FAIRWEATHER: Well, audited by whom, sir?

Hon. Mr. VENIOT: Are they audited by your railway in Montreal before presentation to the commission?

Mr. FAIRWEATHER: That would be done by our revenue audit department.

Hon. Mr. VENIOT: Yes, that is what I want to know.

Mr. FAIRWEATHER: That work would be done in Montreal. That is our presentation of accounts, and then the audit of that is performed by the departmental officers at Ottawa, representatives of the government.

Hon. Mr. VENIOT: When you audit those accounts, what system have you? For instance, to ascertain how much must be paid to the C.N.R. under that 20 per cent discount for reduction in rates?

Mr. FAIRWEATHER: Of course, the detailed method I am not familiar with. I know generally how it is done.

Hon. Mr. VENIOT: Give me a general idea. Do you take your freight bills?

Mr. FAIRWEATHER: Yes.

Hon. Mr. VENIOT: How do you proceed?

Mr. FAIRWEATHER: I think Mr. Cooper might more properly discuss that than myself.

Mr. COOPER: Speaking somewhat from memory, when the Act went into effect in 1927 certain tests were made of the reduced revenue as compared with what the revenue would have been if the 20 per cent reduction had not been made, and it was ascertained generally that the present revenue was, say, 81 per cent of what the old revenue would have been. It was not actually 80 per cent but based on the tests the relationship of the new revenue was ascertained in relation to the old revenue.

Mr. VIEN: Could you speak a little louder, please?

Mr. COOPER: I will do my best.

Mr. VIEN: You are a strong man; you should be able to make yourself heard.

Mr. COOPER: To-day we take the revenues under the billing subject to the Maritime Freight Rates Act and based on the percentages obtained in the test, we say that the present revenue is 81 per cent of what it should be and so calculate the original 100 per cent.

Hon. Mr. VENIOT: How do you arrive at that 81 per cent?

Mr. COOPER: I had explained that that was obtained by certain tests of actual billing under the new rates as compared with the revenue which would have obtained had the old rates not been changed. We take those percentages and we take the current revenues and work back to what the revenue would have been if the rates had not be changed, and the difference between the amount and the present revenue is charged to the government. The government audit that.

Hon. Mr. VENIOT: To arrive at that total of what it would have been had the Act not been changed, how do you proceed?

Mr. VIEN: You take each bill on each shipment.

M. COOPER: Yes.

Mr. VIEN: And you compute what it would have produced on the standard and regular rate.

Mr. COOPER: Yes, that is what I thought I had explained.

Hon. Mr. VENIOT: After you have done that, what documents do you send up here to the railway commission?

Mr. COOPER: I do not know that. I am not in that department. But the necessary documents—

Hon. Mr. VENIOT: Are they copies of your way bills, or originals?

Mr. COOPER: They are not copies of way bills, I am sure of that. They are not copies of way bills or originals; they are statements built up from way bills.

Hon. Mr. VENIOT: Then the railway commission has to depend entirely upon such a report from you without having any originals before them for their audit?

Mr. COOPER: I assume they have their own means and ways of checking the statements prepared by the railway.

Hon. Mr. VENIOT: What means have they of ascertaining that those statements are absolutely correct?

Mr. COOPER: I do not know.

Hon. Mr. VENIOT: Not that I am throwing any suspicion on anybody, but I want the information.

Mr. COOPER: I do not know.

Mr. HEAPS: You are not throwing any suspicions, but you are making insinuations.

Mr. COOPER: I think that question should be answered by someone from the railway commission.

Mr. VIEN: The railway commission has ordered a form that each station agent has to compile, and from every station there is a report coming from the station agent to the railway commission giving the detail on forms approved by the auditor of the freight account. There is a branch of the railway commission wherein there is what they call the audit of Maritime freight accounts. There are five auditors there on the staff of the railway commission. From every station there is a form sent to the railway commission indicating every shipment that has taken place within the Maritime Freight Rates Act and so on, and there is compiled by the agent himself what shipment was carried and the rate under the Maritime Freight Rates Act and what the result would have been under the normal rate, and the difference. That is a form that has been approved by the Board of Railway Commissioners and which has been sent to the railway commission and the railway commission must certify to the minister every year the amount which the government must refund to the railways as the result of the application of the Maritime Freight Rates Act.

The CHAIRMAN: Is that the further audit that you have mentioned?

Mr. COOPER: What audit the railway commission officials give to this statement I do not know.

The CHAIRMAN: Outside of the audit carried on by the Board of Railway Commissioners, are those accounts submitted to the auditor general?

Mr. VIEN: The witness cannot speak with any personal knowledge of these facts because under the Maritime Freight Rates Act this item is certified by the Board of Railway Commissioners, not by the company.

Hon. Mr. VENIOT: Under the Canadian Audit Act the auditor general must audit all accounts for which money is paid.

Mr. VIEN: That is correct; but this is not money paid, this is only an account which the railway has failed to collect. It is not paid out. The Canadian National Railway has not collected that amount because of the operation of the Maritime Freight Rates Act.

The CHAIRMAN: That is not what Mr. Veniot has given; but rather that the amount is voted by parliament and is subject to audit by the auditor general.

Mr. VIEN: I do not believe the auditor general ever audited the account.

Hon. Mr. VENIOT: I know they are not audited.

Mr. HEAPS: I would like to know with regard to these accounts whether they are not audited by the auditors of the railway company?

Hon. Mr. FULLERTON: I am not sure of that.

The CHAIRMAN: Parliamentary auditors.

Mr. HEAPS: Would not that certificate on page 17 show?

Hon. Mr. FULLERTON: It does, and I assume they do audit it; but I do not know.

The CHAIRMAN: As stated by Mr. Fairweather the audit comprises the statement that has been prepared by the railway, but the detailed accounts are submitted to the Board of Railway Commissioners and they are examined and audited there, and over and above all that the deficits to cover the difference in freight rate is submitted to parliament every year and some money is provided to pay those deficits and, therefore, the auditor general has the right to audit those accounts. What Mr. Veniot claims is that the auditor general does not audit those accounts.

Mr. HEAPS: How many audits would that be of the same account, assuming that the auditor general did audit it?

The CHAIRMAN: There is the first statement examined by the auditors of the Canadian National Railways second the railway commission, and third—

Mr. HEAPS: Clarkson, Gordon and Dilworth.

The CHAIRMAN: I do not think they do examine them.

Mr. HEAPS: They may. Who is the fourth one?

The CHAIRMAN: The auditor general.

Mr. HEAPS: Is there any doubt as to the correctness of these reports or statements?

Hon. Mr. VENIOT: Yes, I have some doubt—not of these reports, no. I cannot bring it up here because the railway commission is not represented here, but I intend to bring it up later in some other way—nothing against the C.N.R.

Mr. PARENT: Have you any figures in regard to the difference between the replacement value and the book value of the railway?

Mr. FAIRWEATHER: When you talk about replacement value you get into a very difficult subject indeed. We have never prepared any statement on replacement value. To do so would be a very expensive job. It cost the United States railways \$800 a mile to prepare a statement of that kind.

Hon. Mr. FULLERTON: And what did they do with it when they got it?

Mr. FAIRWEATHER: It was no good when they got it.

Mr. PARENT: I asked you also if you provided for depreciation?

Mr. FAIRWEATHER: We do not provide for depreciation because that is not our practice; we have retirement accounting.

Mr. PARENT: Is this part of the Canadian National Railways—

Mr. FAIRWEATHER: It is the uniform practice of all railways on this continent except that in the United States the United States Interstate Commerce Commission forced the railways to practice depreciation accounting on railway stock and a few other items.

Mr. PARENT: Is it practised in Canada?

Mr. FAIRWEATHER: In Canada we practice retirement accounting for all railways in this country.

The CHAIRMAN: In order to verify that point about auditing, Mr. Roberts is here from the Department of Finance and I wonder if he could tell us if the appropriation voted by parliament yearly to cover the difference between the actual rate and the 20 per cent reduction is audited by the auditor general?

Mr. B. J. ROBERTS: The Auditor General accepts the certificate of the chartered accountants who audit the books of the railway, that is, the appointed auditors of the Canadian National Railways.

The CHAIRMAN: Therefore, Mr. Heaps was quite right in stating there were four audits—the railway audit,—the railway commission audit our auditors and the auditor general.

Mr. ROBERTS: No. I think there is no audit by the Board of Railway Commissioners with respect to that portion of the deficit of the Canadian National Railways which results from the reductions in the Maritime freight rates. We pay the whole deficit—a part of that deficit is allocated to the Maritime Freight Rates Act. Some time ago the Board of Audit acting for the government made an investigation into the effect of these reductions and they established a basis—a percentage amount—which could be taken as representing approximately the cost of the reductions in maritime rates. There is no actual detailed audit of freight bills as there is in the case of private companies that get relief from the government on account of the lowered rates. There is only one audit of the kind made in the case of the Canadian National. The amount involved is simply a portion of the total deficit and the audit of the deficit is the audit conducted by the auditor appointed by parliament to audit the Canadian National Railway books.

Hon. Mr. VENIOT: Can you tell us what system was adopted by the railway commissioners in connection with the audit submitted to them by the C.N.R.?

Mr. ROBERTS: I think that is a detailed audit of freight billings.

Hon. Mr. VENIOT: Do they get the billings or get the certificates?

Mr. ROBERTS: I cannot answer that. It is handle through the Department of Railways and Canals.

Hon. Mr. VENIOT: I was only putting that as a basis of audit in order to compare that with the private companies.

Mr. YOUNG: I would like to ask the officer this question. In the Maritime Provinces, if the railways hauls goods for its own purposes, such as hauling rails, is there an account charged up for freight?

Mr. FAIRWEATHER: Are you speaking of whether we charge freight charges on company service material? No, all company service material moves without freight billings. It is happens to move on capital account; if it happens to be in connection with a capital project then we do make a charge. That charge is, roughly, the out-of-pocket cost of handling freight, and you will find it—

Mr. YOUNG: I am not interested in the details.

Mr. FAIRWEATHER: If it is a maintenance account or operating account there is no charge made; if it is for capital account there is a small charge.

Mr. YOUNG: Assume that it is for capital account; that it is in the Maritime Provinces and that it is charged up at some certain amount, is there any portion of that on which there is a rebate of this 20 per cent and paid by the government?

Mr. FAIRWEATHER: No.

Hon. Mr. VENIOT: That is on the Canadian National?

Mr. FAIRWEATHER: It is a pure intercorporate figure in our own books.

Mr. FINN: What about the Atlantic region?

Mr. FAIRWEATHER: There is no charge made between one part of the Canadian National system and another part of the system for hauling any material used for company purposes.

Mr. FINN: What is the western boundary of the Atlantic region today?

Mr. FAIRWEATHER: The Atlantic region for operating purposes ends at Riviere du Loup, and the eastern lines for accounting purposes ends at Levis.

Mr. FINN: Take from Riviere du Loup to Montreal, which was made part of the Intercolonial; what division is that in?

Mr. FAIRWEATHER: That is in the central region.

Mr. FINN: From where is it directed?

Mr. FAIRWEATHER: From Toronto.

Mr. FINN: And originally was a part of the Intercolonial railway?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Not originally, but when it was taken over it was made part of it.

The CHAIRMAN: Any further questions?

Mr. YOUNG: I see on page 3 of the report there is an item entitled "Result of Operations" and then on page 2 of the analysis it says, "Recapitulation of Results of Operation." Do those figures represent the same thing?

Mr. FAIRWEATHER: The analysis is detailed. It presents the accounts in more detail than the report and attempts to explain more.

Mr. YOUNG: I notice that operating expenditures and revenues are almost the same, and then it goes to the item "Taxes and Rentals" and they are different. I wondered where the difference lay?

Mr. FAIRWEATHER: Are you referring to the difference between the book income deficit and the cash deficit?

Mr. YOUNG: I am referring to page 3 of the report, and it is under the title "Result of Operations", and then on page 2 under "Taxes, Rentals, Etc.," it shows \$6,000,000, and in the other it is \$7,000,000 odd.

Mr. FAIRWEATHER: The difference is the difference between book deficit and cash deficit. If you go down that little table on page 3 you will see it draws down to the figure which is labelled "Cash Deficit, \$47,000,000". If you look at the analysis you will see that it draws down to a figure of \$48,000,000, and the difference between those two amounts represents non-cash deficits that are included in the income account but are not required in cash. This \$47,000,000 is the amount which parliament has to vote in cash. In addition to that we have taken into our deficit account the difference between the \$47,421,000 and the \$48,800,000 and that represents items in income loss that are not required in cash.

Mr. YOUNG: What is the difference between revenue and expenditure basis and a cash basis of accounting?

Mr. FAIRWEATHER: This is on a cash basis on page 3. In the analysis it is on an accrual basis in certain of the expenses. I was going on to explain. Take the discount on funded debt. We write into our operating loss each year a portion of the discount on securities which we issue, and you will find it in the income account. Now, that adds to our deficit account, but you do not need that money in cash; it is a book figure.

Mr. VIEN: Coming back to page 16, I would have liked you to give us some further explanation in respect of the retirements and on what basis you proceed to give us some further explanation in respect of the retirements and on what basis you proceed to give the depreciation of the rolling stock and what is your plan as regards depreciation and retirement of the rolling stock.

Mr. FAIRWEATHER: You wish to speak of Canadian lines' railway practice retirement account.

Mr. VIEN: Yes, first. On that point. Inasfar as the United States are concerned, you are governed by the regulations of the Interstate Commerce Commission.

Mr. FAIRWEATHER: Yes, but in Canada we practise retirement accounting which, as I said, comes to the same thing as depreciation accounting in the long run, but the procedure is this: each year the management reviews the rolling stock and makes a survey of the rolling stock, and when a car has reached the point where it no longer pays to repair it, where it is no longer economical to repair that car, it is retired, the car is scrapped, and whatever salvage can be got from it is determined; and the difference between the amount of salvage and the ledger value of the car—the car might have a value of \$2,000, and the scrap value might be \$150. First, the management decided that that car is no longer fit to repair, second, when that is certified to the ledger value, less the salvage, is written out of the investment account and is written into operating expenses as an item of maintenance of equipment expense under the caption of retirements, and that is presented to you in the accounts and forms part of the money which you vote and we use that money and apply it against our capital requirements, and that is tantamount to depreciation accounting. I might say this that in individual years there might be a considerable difference, but if you spread it out over a period of 30 or 40 years the difference between what you will charge in depreciation and in retirements could not be seen; it would come to the same thing in the long run.

Mr. YOUNG: In any given year it might be different?

Mr. FAIRWEATHER: In any given year it might be different. You might have a wide difference. You might have as much as several million dollars difference in one year—it might be as much as \$5,000,000 or perhaps \$7,000,000—but over a long period of time you would get exactly the same result by either method.

The CHAIRMAN: Gentlemen, the railway officials have prepared a memorandum which deals entirely with this. Should it be distributed?

Mr. VIEN: Does it touch the disposal of retired equipment?

Mr. FAIRWEATHER: No, sir. It deals with the theoretical basis of retirement and depreciation accounting.

Mr. VIEN: How do you come to appreciating the value?

Mr. FAIRWEATHER: Well, we determine it simply. We scrap the car. To the extent that there is any usable material—there may be some usable material on that car—an axle or a wheel or a journal-box or a bearing—we take them into store, and stores are charged with the value of them just as if it were purchased from an outside company.

Mr. VIEN: How do you dispose of the retired equipment? Do you sell it?

Mr. FAIRWEATHER: No, we do not sell it. We break it up ourselves, and the usable material we store and the scrap we sell to the big steel companies and people like that.

Hon. Mr. VENIOT: Under competition?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Before the Canadian National Railway system came in and the roads were consolidated, when what was known as the old Intercolonial Railway extended from Halifax to Montreal, the deficit, if any, on that before the other roads were absorbed into the Canadian National system or government system—was not the whole deficit paid out of the treasury of Canada?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Under the terms of Confederation?

Mr. FAIRWEATHER: Yes.

Mr. FINN: Why is that we are cut off at Rivière du Loup?

Mr. FAIRWEATHER: You must not ask me that question, sir.

Mr. FINN: No; but somebody can answer that. Is there somebody who can tell us why that was done?

Mr. HUNGERFORD: Convenience in operation.

Mr. FINN: You take freight moving from Halifax to Montreal. That proportion of the freight originating in Halifax from Rivière du Loup to Montreal goes into the central division.

Mr. HUNGERFORD: Over a portion of the central division.

Mr. FINN: From Rivière du Loup it goes into the central division accounting.

Mr. FAIRWEATHER: Yes. It is pro-rated. Of course, it does not take the expense——

The CHAIRMAN: I think there is a mistake. I thought that portion affects only that part of the line between Rivière du Loup and Charny because the act applies only to Lévis and not to Montreal.

Mr. FINN: The Intercolonial, before it went into the Canadian National, extended to Montreal.

The CHAIRMAN: Ste. Rosalie.

Mr. FINN: Yes, outside of Montreal. It included what was the Drummond road, first leased and then purchased. That was the Intercolonial through to Montreal. Now, outside of that what is included in what you call the eastern division? What mileage outside of the direct mileage from Halifax to Montreal?

Mr. FAIRWEATHER: There is considerable mileage. For instance, there is the Atlantic, Quebec and Western; there is the Quebec and Oriental, the Halifax and Southwestern, International railway and several others.

Mr. FINN: I mean outside of the Maritime provinces.

Mr. FAIRWEATHER: Outside of the Maritime provinces? Wait a minute. Let us not get at cross purposes. The mileage of the eastern lines. We are talking of eastern lines in the Atlantic region, are we not?

Mr. FINN: The Atlantic region goes to Rivière du Loup and the other stops at Lévis. I say extend the Intercolonial on the Montreal for the sake of argument—a straight line through—what other lines in the province of Quebec are included in the mileage of the eastern division?

Mr. FAIRWEATHER: None.

Hon. Mr. VENIOT: What about Temiscouata?

Mr. FAIRWEATHER: That does not belong to us; it is a separate company.

Hon. Mr. VENIOT: Take the roads taken over on the Gaspé coast.

Mr. FAIRWEATHER: I spoke of those. Oh, that is in Quebec. That is the Atlantic, Quebec and Western and the Quebec Oriental.

Mr. FINN: What is the mileage of that road?

Mr. FAIRWEATHER: Atlantic, Quebec and Western, 102 miles; Quebec and Oriental 100 miles; 202 miles together.

The CHAIRMAN: Before proceeding with the examination of the profit and loss statement, I think it would be advisable for this committee to consider the estimates submitted to the house and that could not pass because they have not been examined by this committee. The pamphlet has been distributed, and this

mentions 286 of the further supplementary estimates for the year ending March 31, 1936. "Amount required to provide for payment to the Canadian National Railway company of the net income deficit including profit and loss, incurred by the system during the year 1935 as certified to by the auditors in the annual report of the company for the year 1935, but exclusive of all non-cash items, including interest on Dominion government advances, as further certified to by the auditors and approved by the Minister of Railways and Canals; this payment to be applied in reduction of accountable advances made to the company from the consolidated revenue fund under authority of the Canadian National Railways Financing Act 1935: Canadian National Railways, excluding eastern lines.... \$41,795,757.24; eastern lines, excluding Prince Edward Island car ferry and terminals . . . \$5,265,373.20; Prince Edward Island car ferry and terminals . . . \$360,334.36." Now, these estimates have been before the house but they were not approved finally without examination by this committee, and all I am asking the committee to do is to pass on these estimates at the present time.

Mr. HEAPS: Perhaps we could have a statement from the board of trustees with regard to the deficit shown here of \$47,000,000, and what the expected deficit will be for the ensuing year?

The CHAIRMAN: You have also before you the budget for 1936 which gives you approximately the basis on which these estimates were passed, but these cannot be considered before the resolution which is at present before the house is passed. They are included in the further supplementary estimates tabled the day before yesterday. These are for 1936, and form part of the budget you have before you.

Mr. HEAPS: Perhaps I might have a little information from the chairman of the board. I see there is an item for the car ferry terminal P.E.I. of \$360,000. I would like a little information in regard to the whole operation of that ferry. I would like to know the amount of goods carried, the traffic in general and what it costs to operate the ferry.

Mr. YOUNG: Before giving that information, I should like to ask the officers of the road what their fiscal year is.

The CHAIRMAN: The 1st of January.

Mr. YOUNG: The calendar year?

Mr. FAIRWEATHER: The calendar year. This car ferry service runs from Tormentine to Borden, nine miles approximately across the Strait of Northumberland. There were 1,884 crossings in the year, net tons of freight transported 253,407, number of passengers carried 65,765, number of automobiles carried 13,806.

Mr. HEAPS: What is the cost of the operation of that ferry to the government?

Mr. FAIRWEATHER: The maintenance and operation of the steamers and terminals \$435,373; of the lunch room on the boat \$8,268; total \$443,641. Revenues which are apportioned to the car ferry and the nine mile basis amount to \$89,338.71, leaving net deficit of \$354,302. There is a small item on account of Canadian National expenditure.

Mr. HEAPS: Will you kindly repeat the amount of income?

Mr. FAIRWEATHER: The operating expenses \$443,641; operating revenues \$89,338; net revenue and loss \$354,302, and a small item of interest on Canadian National Railway company expenditures of \$6,031, making a loss of \$360,334.

Mr. HEAPS: Of course, it is a most extraordinary picture with that cost of operating a ferry there and a little over a thousand persons a week using the ferry.

Mr. HOWARD: That is quite a lot of people.

Mr. HEAPS: Yes it is, but when you figure that speaking strictly from the financial results of its operation, for every dollar of revenue you get it costs the government \$5.

Mr. LABELLE: The revenues are only counted on nine miles. In the matter of carrying potatoes leaving Charlottetown, for example, the ferry is only credited for the nine miles that it travels and the balance is credited to the National railway.

Mr. HEAPS: That is quite logical. You are not performing any extra service beside the nine mile service. All I am wondering at is why there is such an expensive service there for such a small revenue.

Hon. Mr. VENIOT: They have to maintain in under the terms of confederation no matter what it costs.

Mr. HEAPS: That may be so, but the fact is that when we are speaking about deficits to the railway system we will never get a true picture as to how these deficits are created. Here is one case. This is not the result of mismanagement on the part of the railway as is so often claimed in certain circles as it is one over which the railway has no control. I am wondering if there is not any other way whereby the terms of confederation could be lived up to.

Hon. Mr. VENIOT: By building a tunnel; but you are compelled under the terms of confederation to do that or give this service.

Mr. HEAPS: I am asking the management; I am not asking Mr. Veniot any questions—I am asking the management of the railway who have come here whether there is any other means of giving them that service without incurring a deficit of \$5 to \$1.

Hon. Mr. FULLERTON: I know of no other means.

Mr. HUNGERFORD: Of course, that is not quite the picture. As has already been stated only a proportion of the earnings are credited to this operation, but over and above that there is a great deal of revenue that is derived from traffic which is made possible by having this facility, and that accrues to the railway. So the picture is not complete.

Mr. FINN: That is all to the Atlantic or central region.

Mr. FAIRWEATHER: The Atlantic region.

Mr. FINN: You said a moment ago that it was the Canadian National.

Mr. FAIRWEATHER: I said I referred to the \$6,000 odd interest item, which means that the Canadian National Railway company made some expenditures down there for which they held this operation responsible—it held this service responsible.

Mr. FINN: That is the car service?

Mr. FAIRWEATHER: The car ferry service. The Canadian National Railway company under order in council is the agent to operate this service, and spent some money down there, and this was an interest charge on that money.

Mr. FINN: Is not the car service operated in connection with the Atlantic region?

Mr. FAIRWEATHER: Yes.

Mr. FINN: And it is not charged up to the Atlantic region?

Mr. FAIRWEATHER: It is charged up separately.

Mr. FINN: To the Central or Eastern or Atlantic regions?

Mr. FAIRWEATHER: No. It is shown as a separate item and voted as a separate item some years ago. Acting upon request, the income account of the car ferry service was separated from the balance of the eastern lines, and that is the way it is shown now, and it is voted separately.

Mr. FINN: There is one other question. What is the distance between the points on the eastern lines — Diamond junction and Levis — what is the distance from there to Montreal?

Mr. FAIRWEATHER: About 180 miles.

Mr. FINN: When you add that to 203 miles, that is the old Intercolonial...

Mr. FAIRWEATHER: I am afraid, sir, I must have misinformed you somewhere.

Mr. FINN: You said there were two railways in Quebec, one of which was 102 miles long and the other 100 miles long.

Mr. FAIRWEATHER: Those were lines added to the Atlantic region.

Mr. FINN: They were not part of the old Intercolonial?

Mr. FAIRWEATHER: No.

Mr. FINN: That is the very point. It is not part of our burden. It was not a part of the confederation pact under section 145 of the British North America Act.

The CHAIRMAN: The roads were not built then.

Mr. FINN: They were not built. It is not proposed that they should be built under section 145, but they have been taken in, and then you add on 180 miles to 202 miles and you get 382 miles.

Mr. FAIRWEATHER: That is mathematically correct, sir. The 180 miles, is not in the eastern portion; the 202 miles is.

Hon. Mr. VENIOT: They were taken over in 1928.

Mr. FAIRWEATHER: Yes.

Mr. FINN: The best paying section of what was the old Intercolonial between Riviere du Loup and Montreal is credited to the central division and we take on these two by-roads in the province of Quebec as part of the Intercolonial with this deficit of over \$5,000,000.

Mr. FAIRWEATHER: The Eastern Lines are defined by Act of Parliament.

Mr. FINN: I know that, and I am asking you is that a fact?

Mr. FAIRWEATHER: The Eastern Lines, as I understand it, are defined by statute, and we are obeying the statute.

Mr. FINN: I am asking you whether my statement is a fact?

The CHAIRMAN: Say "Yes."

Mr. FAIRWEATHER: I will say "Yes" under instructions of the Chair. It is a very complicated subject.

Mr. FINN: It is not very complicated. All you have to do is take the mileage from Diamond Junction to Montreal, and these two roads you speak of, one the Oriental—it must have been Oriental, I never heard of it—is 100 miles and the other is 102 miles, and is tacked on to the Atlantic region.

Mr. FAIRWEATHER: It is included in the Atlantic Region and also in the Eastern Lines.

Mr. FINN: Yes. Then the road from Levis to Montreal you say is 180 miles, and that was the old Intercolonial.

Mr. FAIRWEATHER: As far as St. Rosalie.

Mr. FINN: I am speaking now of the operating end of it. That is the best paying section, and the easiest grade on the whole original Intercolonial.

Mr. FAIRWEATHER: If you want my assent to the first part of the statement I can give it, but not to the second part.

Mr. FINN: What is the first part?

Mr. FAIRWEATHER: In regard to the mileage. But when you talk of it being the best paying section, that is a matter of opinion.

Mr. FINN: Perhaps it is not fair to ask you that question because you are a financial man, but I will ask the engineer if the grades are not easier from Levis—I am not asking you, Mr. Fairweather, because you are not an engineer.

Mr. FAIRWEATHER: But I am an engineer. As a matter of fact, the grades are not easier.

The CHAIRMAN: Have the other members of the committee any questions?

Mr. HANSON: I move that the estimates be reported.

The CHAIRMAN: It is only to comply with the request of the leader of the opposition that these estimates are submitted to the committee for consideration. We do not need to report. (Adopted.)

Mr. HOWARD: Before you proceed, why did you show the cost of operating the restaurant on the boat at \$8,000 and not show any revenue back from it?

Mr. FAIRWEATHER: These reports are synoptic. Undoubtedly the revenues are in there. I did not read the full detail, but they are probably in the upper part. The lunch room shows \$10,000 revenue, and privileges \$605. I was simply giving the synoptic figure.

The CHAIRMAN: Gentlemen, you have also before you the special supplementary estimates for 1936-1937, and at page 17 appear items 426, 427, and 428 with regard to the proposed budget of the Canadian National Railway Company. You have also before you the budget for 1936 prepared by the Canadian National Railway which gives you full details and explanations. I think it would be advisable for us to dispose of those matters as soon as possible, because those estimates may be considered in the House either to-day or at the beginning of next week.

Mr. HEAPS: The special supplementary estimates?

The CHAIRMAN: Yes, Item No. 426. Shall I dispense with reading it?

Mr. HEAPS: Is that the total amount expended?

The CHAIRMAN: This is a new procedure and I might as well explain it to the committee. You will remember that when the committee of 1930, 1931-1932 sat there was a discussion as to the advisability of the existence of the Canadian National Railway, and as to the estimates being submitted to the House and being voted by the House in advance. In years past we were examining those expenditures in arrears, and therefore we could not modify them nor suggest any modifications; but this year the government has adopted a new policy of submitting those estimates to parliament in advance, and the items 426, 427, and 428 are the result of those deliberations. If you look up the details of the budget of the Canadian National Railway Company you will find the full data.

Mr. HEAPS: In order to make that clear, this figure of \$39,900,000 is a comparable figure to the figure of last year of \$47,421,000?

The CHAIRMAN: I think it is immaterial, because the government is providing—

Mr. HEAPS: I think it is material.

The CHAIRMAN: Please let me finish.—the government is providing for a specified amount of money to be voted by parliament, and this amount of money cannot be exceeded by the officials of the Canadian National Railway for the next fiscal year of 1936. If further amounts are required they will have to be granted from supplementary estimates.

Mr. HEAPS: These two items I have tried to compare give to the committee an indication of the expected year's work of the railway?

The CHAIRMAN: Yes.

Mr. HEAPS: They expect that in the ensuing year the deficit will be approximately \$7,000,000 less than it was in the previous year?

The CHAIRMAN: That is the hope.

Mr. HEAPS: They are estimates and they give us the best understanding of the situation we can have. Perhaps the chairman of the board of trustees might give to the committee now some indication as to what the expected earnings of the road for the ensuing year will be.

Hon. Mr. FULLERTON: It is shown in the pamphlet.

Mr. HUNGERFORD: It is headed "1936."

Mr. YOUNG: I take it that this again refers to the calendar year of 1936. Item 426 shows an estimated decrease in deficit of \$7,000,000. Three or four months of this year have elapsed. What are the actual results shown thus far in this year? Do they actually warrant the estimate which is submitted?

The CHAIRMAN: What is your question?

Mr. YOUNG: There is an estimated decrease in the deficit of approximately \$7,000,000. You have had approximately three or four months of operation in this year. Does that operation warrant the estimate and the optimism expressed in the estimate?

Hon. Mr. FULLERTON: I do not know just how to answer that question. We are short up to the present time. To the end of March we have a surplus of \$76,741, and last year we had a surplus of \$481,000. We have had a tremendous amount of expense in connection with snow, floods, and that sort of thing.

Mr. HEAPS: Could you give us the amounts?

Mr. MORROW: Mr. Heaps is asking you how are your figures against your budget?

Hon. Mr. FULLERTON: They are below the budget figures by about \$2,000,000.

Mr. YOUNG: What do you mean by "below the budget figures"?

Hon. Mr. FULLERTON: We estimate the revenue each month, and our expenses each month. Then we find that our estimate of revenue has not been reached, has not developed to the extent we expected, and our expenses have been higher than anticipated, resulting in a deficit of about two millions.

Hon. Mr. YOUNG: That the moment the optimism expressed in the estimates is not borne out?

Hon. Mr. VENIOT: But we have passed through the worst period?

Hon. Mr. FULLERTON: Yes.

Mr. HOWARD: Three or four months.

Hon. Mr. FULLERTON: Three months, January, February and March.

Mr. HUNGERFORD: We make up a budget for the whole year and divide it by months on an estimated basis. We have fallen behind on the estimated monthly basis to this extent, but it does not follow that we are not going to pick it up again.

Hon. Mr. VENIOT: And, of course, when you started to make up the budget for 1936 you did not anticipate the troubles you were going to have last winter with snow, floods and so on?

Mr. HUNGERFORD: Quite right. It hit us two ways: The weather was so severe it interfered with traffic, and we lost revenue. In addition, the expenses of operating were greatly increased. In the spring we had flood troubles, which

also interfered with traffic, more particularly in the eastern part of the country, and added to the expense. We have gone through three months of particularly bad experiences.

Mr. HOWARD: But in order to arrive at your budget you take your estimate for one year and divide it by twelve?

Mr. HUNGERFORD: Not quite that. Experience has shown that the earnings each month throughout the year represent pretty closely a percentage of the total for the year, and we use that scale.

Mr. HEAPS: Could you give us an idea of the actual expenditure in those three months on account of floods and snow?

Hon. Mr. FULLERTON: We have that information and can give it to you.

Mr. FAIRWEATHER: You can get some idea of the cost of moving snow, sand and ice right there. We have here a statement. For 1936, January, February and March, our expense was \$1,900,000. The increase was \$600,000. Our expenses this year were \$619,000 more. That does not cover the flood damage.

Mr. HUNGERFORD: There is another factor, and that is the reduction in the tonnage of trains on account of the cold weather.

Hon. Mr. VENIOT: For many days at a time the train could not move.

Hon. Mr. FULLERTON: And we made an increase in wages.

Mr. YOUNG: I take it that unless we have very favourable conditions for the other nine months of the year we might anticipate a deficit larger than actually appears in the estimates?

Hon. Mr. FULLERTON: That might very well be.

Mr. HUNGERFORD: We are hoping for a substantial volume of traffic.

Hon. Mr. FULLERTON: If we got some grain to move from the West it would help us.

Mr. HEAPS: May I ask how the income and expenditures of the railway for the first three months of this year compare with the first three months of last year?

Hon. Mr. FULLERTON: Yes, our revenues for January, February and March this year amounted to \$40,279,771, as against, \$38,370,000 last year, an increase of roughly \$2,000,000.

Mr. HEAPS: And expenditures?

Hon. Mr. FULLERTON: There was an increase of \$2,313,000 in operating expenses by reason of floods, snow and ice, increases in wages, retirements, and so on.

The CHAIRMAN: Shall the item carry? (Carried).

Hon. Mr. STEWART: In prior years it has not been the practice to submit a budget similar to the one now presented. Is this the first year it has been done?

Hon. Mr. FULLERTON: We do it every year.

Hon. Mr. STEWART: Did you budget every year along the same lines as you indicate in this budget you are now submitting?

Hon. Mr. FULLERTON: Yes.

Hon. Mr. STEWART: Why was it not submitted to the committee in prior years?

Mr. FAIRWEATHER: It has been a uniform practice to do that.

Mr. YOUNG: But never made subject to the House.

The CHAIRMAN: In past years the budget was submitted to the committee for consideration, but no estimates were submitted to the House in advance.

Hon. Mr. STEWART: Then the answer to the question was wrong. I asked if in prior years a budget similar to this one had been submitted to the committee, and I was told "No."

Hon. Mr. FULLERTON: I did not think it had been.

Hon. Mr. STEWART: That is my recollection of the proceedings of the committee.

The CHAIRMAN: This is the first time the budget has been submitted to the House dealing with the future expenditures of the Canadian National Railway. Moreover, the very fact that these figures are submitted to parliament makes them subject to the Auditor General.

Mr. ROBERTS: The actual vote of the deficit by parliament has been done after the arrears, but the Canadian National has not \$40,000,000 or \$50,000,000 of working capital to carry on with, and therefore at the time the requirements of the railway were considered there was a bill which authorized the Minister of Finance to make temporary advances to carry them along, and against those temporary advances the actual expenditures were debited.

Hon. Mr. VENIOT: What is the advantage of this system?

Mr. ROBERTS: That the accounts are being returned month by month.

Hon. Mr. VENIOT: I would like some information concerning some freight rates. What is the freight rate say from Montreal to the maritime ports, Saint John and Halifax, on wheat from the West? I know there is a differential.

Mr. HUNGERFORD: I do not think any one here can answer that question, but we shall look it up for you.

Mr. YOUNG: It has been suggested in the House, I think, that if these estimates were voted for the current year it might possibly indicate to the management: "Well, we have this money, and therefore we may not be just quite so keen on cutting the budget." Would there be any danger of that?

Hon. Mr. FULLERTON: Not the slightest danger.

Mr. YOUNG: I almost apologize for asking the question.

Hon. Mr. STEWART: How does the management hope to overtake the deficit?

Hon. Mr. FULLERTON: I beg your pardon?

Hon. Mr. STEWART: With the knowledge that you are \$2,000,000 down on your budget, how do you hope to overtake that during the balance of the year?

HON. MR. FULLERTON: We hope that our revenues will largely increase, for one thing. Last year our revenues from grain were smaller than in the last four or five years. They have been getting smaller every year.

HON. MR. STEWART: That is shown in your budget?

HON. MR. FULLERTON: Yes.

HON. MR. STEWART: You do not hope to get anything more than is in your budget?

HON. MR. FULLERTON: We hope we will.

HON. MR. STEWART: How do you hope to overtake the \$2,000,000 you are now down if your budget is based on everything you hope to receive during the year?

HON. MR. FULLERTON: Naturally when your revenues go down you cut your expenses as fine as you can. You are going to do a certain job this year which perhaps ought to be done, but if you are going down in your revenue and that job can be put off, you put it off.

HON. MR. STEWART: Deferred maintenance?

HON. MR. FULLERTON: Yes.

HON. MR. STEWART: Is there anything in your budget that can safely and reasonably be deferred until next year?

HON. MR. FULLERTON: Mr. Hungerford can answer that question.

MR. HUNGERFORD: It all depends on the circumstances of the case. Those things that are necessary are not deferred. Those that can be deferred in the light of the latest evidence are deferred.

HON. MR. STEWART: I suppose you have been doing that in the last four or five years, deferring maintenance as far as possible.

MR. HUNGERFORD: As far as I know it has always been done. It is a common practice in railway work.

HON. MR. STEWART: And in times of stress you defer a little more than in times when revenues are good?

MR. HUNGERFORD: Quite true; but in general an effort is made to cut the cloth to fit the pocket.

HON. MR. STEWART: Suppose the Canadian National Railway goes along and it is found that the \$39,000,000 we are putting in our estimates, which is \$2,000,000 down now and may be down \$2,000,000 more in July, is insufficient, what will you do?

THE CHAIRMAN: Come back to parliament.

HON. MR. FULLERTON: That is the only thing we can do.

HON. MR. STEWART: Then what is the advantage of a figure that does not tie them down? They can come back and say: "We estimated \$39,000,000 but it is \$46,000,000."

THE CHAIRMAN: That applies to every department of the Crown. Estimates furnished by any department of the Canadian administration are only estimates.

MR. YOUNG: Certainly.

HON. MR. STEWART: What is the reason for adopting a new method? We have been going along every year. What is behind the adoption of this new system?

MR. HANSON: To get away from the blank check.

HON. MR. VENIOT: Is it not the case that it is not the policy of the railway but rather the policy of the government?

THE CHAIRMAN: Quite true.

HON. MR. STEWART: It is not on the recommendation of the management at all.

HON. MR. FULLERTON: No; I never heard of it until I read it in the papers.

THE CHAIRMAN: Still the officials of the Canadian National Railway were called upon to prepare a statement on which those estimates were based.

HON. MR. FULLERTON: We prepared our budget.

MR. VIEN: Mr. Chairman, what I want to know is this, and I think it is a question that might be cleared up a little more: what will the advantage be of a system such as the one now suggested over the system that prevailed in former years. As I understand, formerly a bill was enacted to give the Minister of Finance the right to advance from time to time to the Canadian National Railways according to their requirements. Now, what will the advantage be of this straight vote by parliament of a fixed sum of money over the other system. I am sorry to say I cannot see the advantages at first sight.

THE CHAIRMAN: Again we will ask Mr. Roberts to explain.

MR. ROBERTS: I think it simply represents the policy of the government of having every item of expenditure placed before parliament in specific estimates; so that the whole program of expenditures can be found in the annual estimates.

The CHAIRMAN: Is it not a fact, as far as the committee is concerned, that it places before us a future commitment for the year to come instead of examining the expenditures as in the past.

Mr. VIEN: Whatever the amount voted, if the Canadian National Railways are short a million dollars or two or three million dollars the government will have to advance it by a special warrant of the governor general. You cannot stop them there, apparently.

The CHAIRMAN: They may have some tall explaining to do.

Mr. HEAPS: May I ask if the Canadian Pacific make out an annual statement in advance?

Hon. Mr. FULLERTON: I do not know. I imagine they do.

Mr. HEAPS: Of their requirements?

Mr. FAIRWEATHER: Yes, I would think so.

Mr. HOWARD: It is a much more businesslike way to do business than the old way.

Mr. VIEN: It may be. I cannot see any disadvantage in doing it that way instead of the other. I must confess my inability to find any great advantage in it over the other, except to place before parliament in clear figures the estimated requirements for the year.

The CHAIRMAN: As a matter of fact, Mr. Roberts, is not that a fact, that up to three years ago the estimates of the Canadian National were introduced by resolution in the House of Commons providing that out of the consolidated revenue fund the expenses connected with the road would be paid? That was a new departure then. There was a resolution introduced, and on that resolution a bill was based?

Mr. ROBERTS: We have to go back several years to get the line of continuity. We might commence about 1927 or 1928. The railway earned a substantial part of its fixed charges, and the financial provision was being made under various statutes—not under any one statute—mainly for capital expenditures. The government provided for such requirements by an authority to guarantee the company's bond issues, with provision for the making of temporary loans from the treasury, pending the sale of bonds. Then you come to the time when they had large losses, and the first of the acts for their financial aid provided for the whole amount of their requirements including the deficit, to be raised by loans from the Dominion treasury or by guarantee of securities, and in one year there were loans issued for deficits. Later on when the royal commission report came in it was decided that in future the deficits should be paid by the government as an expenditure and that there would be no funding of deficits. Annual provision for the railways was then made through a financing act, by which, so far as deficits were concerned, we were permitted to make accountable advances to the company during the year. At the end of the year when the deficit was ascertained, we obtained a vote as a supplementary estimate and applied such amount against the accountable advances. This year we are getting the vote in advance.

The CHAIRMAN: A change of procedure, Mr. Stewart.

Hon. Mr. STEWART: Yes.

Mr. VIEN: I would like to move that we should report favourably on item 286 of the supplementary estimates.

Hon. Mr. STEWART: Mr. Roberts has pointed out that on previous occasions a bill has been introduced in the house authorizing an advance to the Canadian National Railways from time to time.

The CHAIRMAN: By resolution.

Hon. Mr. STEWART: It must have been an estimate.

The CHAIRMAN: A lump sum was provided for each case.

Hon. Mr. STEWART: The Minister of Railways must have before him an estimate from the Canadian National Railways for their own requirements, just as we have an estimate now for the budget. He had before him the very same material. He must have the same material. He must have had an estimate of the requirements, otherwise the bill would not have specified an amount.

The CHAIRMAN: Certainly.

Hon. Mr. STEWART: Instead of putting it in the bill, we put it in an estimate.

The CHAIRMAN: It is a change of procedure.

Hon. Mr. STEWART: Tweedledee and tweedledum.

Mr. HOWARD: Oh, it is not that. I take exactly the opposite view from that. The old system of allowing any concern that is financed by the government to spend the government's money practically without authorization and then come along after the money has been spent and ask the elected members of the people to vote a deficit was all wrong. At present we have passed millions of money for specific purposes under a specific vote, and we are also passing this under a specific vote. Now, it is up to the management to keep within their estimates exactly as a minister of the crown is obliged to keep within his estimates on another vote.

Hon. Mr. STEWART: It was done when they had an act.

The CHAIRMAN: Mr. Roberts told you that an act based on a resolution was introduced, usually at the end of the session. Is not that right? Therefore, we have nothing in advance.

Mr. HEAPS: When the management of the railways are asked to see that they absolutely keep within the estimates that is asking them to do something which no other department ever did or can do. If Mr. Howard will agree to regulate the weather it might be possible.

Mr. HOWARD: The answer to Mr. Heaps' statement is plain. They would have come within their budget if it had not been for floods or excessive snow or other things.

Hon. Mr. STEWART: Right now we ought to increase that estimate \$2,000,000 to be fair to the railways because they are down \$2,000,000 now.

The CHAIRMAN: If at the end of the fiscal year we find that condition existing nothing prevents them coming next session and asking for a supplementary vote, and if the House is not sitting they can get it by Governor General's warrant.

Mr. ROBERTS: A Governor General's warrant would not operate.

The CHAIRMAN: Even if the House is not sitting?

Mr. ROBERTS: As an actual fact, the Canadian National Railways has enough working capital to provide.

The CHAIRMAN: Therefore, there is no danger.

Hon. Mr. STEWART: They will borrow it first.

The CHAIRMAN: Shall item 426 carry?

(Carried).

Shall item 427 carry?

(Carried).

Shall item 428 carry?

(Carried).

Mr. HOWARD: That will not prevent discussion of these items on the floor of the house?

The CHAIRMAN: It prevents no discussion at all. Members of the committee are free to discuss anything they like.

Mr. VIEN: This is also without prejudice to our asking further questions in this committee.

The CHAIRMAN: Not only that, but we will examine the full details of the report of the Canadian National. Gentlemen, there are two other items. A resolution was introduced in the House by the Minister of Finance the other day. It was not passed because Mr. Bennett stated in the House that he preferred that his item be considered by the special committee before the resolution passed. If you look at your budget for the year 1936 you will find "Capital Expenditure — Additions and Betterments."

Mr. HEAPS: To what page are you referring?

The CHAIRMAN: Page 1. We are on the item of additions and betterments, less retirements, \$2,361,000. Shall the item carry?

Mr. HOWARD: What is the list of betterments and retirements?

Mr. FAIRWEATHER: On page 3 of the pamphlet you will see a general summary of what these additions and betterments consist of.

Mr. VIEN: What is the central region?

Mr. FAIRWEATHER: The \$2,862,631, made up of many hundreds of items.

Mr. VIEN: Are they detailed somewhere?

Mr. FAIRWEATHER: I have the detailed book here. This is our control of that item.

Mr. VIEN: Have you a copy of the book for the committee?

Mr. FAIRWEATHER: No, it is detailed to such an extent that I did not think—

Mr. VIEN: Mr. Chairman, I think at least one copy of the book should be laid on the table of the committee for reference purposes.

Mr. FAIRWEATHER: They are filed with the Minister of Railways and Canals.

Mr. VIEN: I understand; but a matter has been referred to the committee, and the committee is asked to pass an item of \$2,862,631 for the central region. I give this item as an example.

The CHAIRMAN: This statement will be filed with the clerk of the committee for reference purposes.

Mr. VIEN: Will there be any objection to having a copy for each member of the committee?

Hon. Mr. FULLERTON: It has not been customary to do that in the past. As a matter of fact, many of these items are of such a character that we do not think it wise to give them out. I do not think it would be wise to distribute this information to the public at all; that is the way it appeals to me. It has never been done any year previously.

Mr. VIEN: As long as the chairman has the information in a copy, I am content.

The CHAIRMAN: The clerk of the committee will have a copy.

Mr. VIEN: I can see the advisability of not publishing it from the house tops.

Mr. FAIRWEATHER: In previous years I might say we did pick out some important items and give the members of the committee a list of the more important items; but the total amount this year was relatively so small that we thought a synoptic presentation by regions would be satisfactory. We can take out the more important items, if you desire them.

Mr. HOWARD: What is that Montreal Terminal development item of \$100,000?

Mr. HUNGERFORD: It is simply for settlement of the amount owing.

Mr. HOWARD: Is that the balance?

The CHAIRMAN: I should like the members of the committee to look at page 3 of the budget, and a full explanation of the \$2,361,000 will be found there.

Mr. VIEN: Yes; but Mr. Chairman, a question is being asked as to the item of \$100,000 for the Montreal Terminal Development, and what it involves.

Mr. FULLERTON: It involves the payment of liabilities which have been contracted. For instance, payment of land. We do not know definitely what will have to be paid this year.

Mr. VIEN: It does not really mean an addition or improvement of works.

Hon. Mr. FULLERTON: No, it is for property that has been purchased in relation to the terminals.

The CHAIRMAN: \$100,000 is provided for it.

Hon. Mr. VENIOT: Does the C.N.R. provide anything for the reconstruction of the bridge washed out at Fredericton?

Mr. FAIRWEATHER: There is nothing in this budget, sir. This budget was prepared before the accident.

Mr. VIEN: The management has not recommended that anything be done with respect to the Montreal Terminals situation?

Hon. Mr. FULLERTON: No; that is a matter of government policy.

Mr. HEAPS: How much money has been spent up to date?

Mr. LABELLE: \$16,000,000.

Hon. Mr. FULLERTON: \$16,509,216.

Mr. HEAPS: I think that you gave us last year a rough estimate as to what it would cost if you completed the terminals and put them in shape where you could use them. Can you give us those figures now?

Mr. HUNGERFORD: It all depends on what you do. The minimum of expense to put them in use by the Canadian National Railways would be somewhere between \$5,000,000 and \$6,000,000.

Mr. HEAPS: If you spent that money would it save anything for the Canadian National Railway system?

Mr. HUNGERFORD: Well, it would save some because it would shorten the distance from the south and facilitate certain operations.

Mr. HEAPS: Do you think, from an engineering and railway point of view, it would be good policy to spend that five or six million dollars to complete the terminals and give you proper facilities in Montreal?

Mr. HUNGERFORD: Well, that is a difficult question to answer.

Mr. HEAPS: Perhaps I am getting too near politics.

Hon. Mr. VENIOT: That would not include what we call the Union station or Central station, in Montreal?

Mr. HUNGERFORD: The advantage of a union station is greatly exaggerated. It is going to cost a lot of money, and the added convenience and other features do not represent a very large sum.

Mr. HEAPS: There would be a considerable saving if you had the new terminal completed, insofar as the Canadian National is concerned.

Mr. HUNGERFORD: There would be some.

Mr. HEAPS: Would it be more than sufficient to compensate for the outlay of \$5,000,000?

Mr. HUNGERFORD: I would not say offhand. I am dealing with figures now that I have not seen for a long time.

Mr. HOWARD: May I ask when Mr. Hungerford is looking up this matter, the estimate of \$5,000,000 or \$6,000,000 to make the terminals livable, would he also estimate what he thinks the labour would amount to?

Mr. HUNGERFORD: Yes, we can do that.

The CHAIRMAN: Shall the item carry?

Mr. VIEN: Then there is the item of hotels.

The CHAIRMAN: Mr. Vien, we are dealing with those two specially.

Mr. VIEN: The item of \$2,361,000.

The CHAIRMAN: If you look at page 1 you will find that these two items have to be reported to the House in order that the estimates may be considered in the House.

Mr. HEAPS: Inclusive of the hotels?

Mr. VIEN: We should come to the details.

The CHAIRMAN: Yes.

Mr. YOUNG: I visited Montreal some time ago, and it seems to me that the facilities there, so far as the station and that kind of thing is concerned, are very inadequate.

Hon. Mr. FULLERTON: Very.

Mr. YOUNG: It seems to me that if the facilities are inadequate, this is one of the projects we might consider in order to give employment to people who are out of employment. This is one time when public bodies should be expending moneys on useful works, and I should like the management to say something about the possibility of completing what should properly be completed at Montreal at the present time. I feel this, Mr. Charman: In a few years from now we anticipate that labour will not be in the position in which it is at the present time, but will be employed. At the present time it is not employed. Should we not, as a public body, consider that matter and see if we cannot employ labour on useful and necessary works? I should like to know just what management feels about that, with respect to the Montreal terminals.

The CHAIRMAN: There is no doubt about it that the unemployment commission which it to be appointed, will consult with the officials of the Canadian National Railways, and whatever money needed will be provided by parliament in accordance with the recommendations of the commission. They are bound to consult with the officials of the Canadian National Railways.

Mr. YOUNG: I am not worrying about the unemployment commission at all. I am asking the management of this road whether in their judgment, the facilities at Montreal are adequate, and if in their judgment they are not adequate, is this a good time to proceed to make them adequate. That is what I am asking.

Hon. Mr. FULLERTON: We will have a report made that will be available at the next meeting.

The CHAIRMAN: Shall the item carry?

Item carried.

The CHAIRMAN: There is a second item, retirement of capital obligations, including sinking fund and equipment principal payments, \$7,459,000. Shall the item carry?

Item carried.

The CHAIRMAN: Shall I report the resolution?

Carried.

The CHAIRMAN: Now, Mr. Fairweather, will you go on with the profit and loss statement?

Mr. VIEN: It is almost one o'clock; I think we should adjourn.

The CHAIRMAN: Shall we proceed at four o'clock?

Mr. HEAPS: I would suggest tomorrow morning at 11 o'clock.

The CHAIRMAN: Do you not think we should sit this afternoon?

Mr. HOWARD: Yes.

The CHAIRMAN: Remember we have the officials of the Canadian National Railways here. We can sit tomorrow morning as well.

Mr. HEAPS: I have no objection.

Mr. HOWARD: Four o'clock.

The CHAIRMAN: Let me make an appeal for this afternoon.

Mr. HEAPS: All right.

Mr. FINN: May I ask if the officers of the Canadian National Railways would prepare a statement of the operating costs and operating revenue of the Atlantic region for the past year?

The CHAIRMAN: All right, Mr. Finn.

The committee adjourned at 12.55, to meet again at 4 o'clock this afternoon.

AFTERNOON SESSION.

The committee resumed at 4 o'clock.

The CHAIRMAN: I think I see a quorum. This morning we were considering the budget of 1936, and we had reached the Canadian National Steamships, the Canadian Government Merchant Marine operating income, \$200,000. You will find that item on page 1 of the budget submitted by the officials. I think we might as well go through the estimates and get rid of them while we are at it. The total amount to be provided is \$199,450.

Mr. KINLEY: Do these boats carry mail?

Mr. LABELLE: Yes.

Mr. KINLEY: Do they get a subsidy for carrying the mail? I notice something here from the West Indies, I think it is for the mails. It is not in the budget; it is in the other part.

Mr. MORROW: Page 5 of the budget.

Mr. KINLEY: That has to do with subsidies received from the West Indies countries.

Mr. MORROW: You are asking about the mails.

Mr. KINLEY: You are carrying mail, and I wondered if you got anything for it. Your boats are royal mail boats.

Hon. Mr. VENIOT: It may be on the same basis as the railways, so much per cubic foot.

Mr. KINLEY: On what?

Hon. Mr. VENIOT: Mail space reserved. The Canadian Pacific and the C.N.R. charge so much per cubic foot for all space, what is called the railway mail service.

Mr. KINLEY: Is the amount set out in the statement?

Mr. LABELLE: We have not got the information whether it is so much per cubic foot or not.

Mr. KINLEY: Do you know the amount received each year? The point I want to make is this: you are carrying our fish to the West Indies and the freight is an important matter. If you carry mails for nothing, that is a charge against our industry, that is all.

Hon. Mr. VENIOT: I know the C.N.R. does not carry anything from the Post Office department without asking pay for it; I am sure of that.

Mr. KINLEY: I know the boat running from Yarmouth to Boston gets a big subsidy for carrying mail.

Hon. Mr. HOWE: I may say I made inquiries from the department officer and he says they do not get any subsidy for carrying mail.

Mr. KINLEY: We carry the mails of the country for nothing?

Hon. Mr. HOWE: I cannot say that. I am not sure we carry them; I know they get no subsidy.

Mr. KINLEY: I know they carry mail. I have been on them and they carry mail. Take the boat from Yarmouth to Boston, the Eastern Steamships. I understand they get a very large subsidy from the American government for carrying mail. Here is a Canadian boat which carries our fish to New York and the West Indies.

Hon. Mr. VENIOT: These boats are not owned by the American government.

Mr. KINLEY: No, they are privately owned boats.

Hon. Mr. VENIOT: The Atlantic service have to carry the mails under the subsidy.

Mr. KINLEY: What is the subsidy here? There is no subsidy. The point is, industry is carrying the burden instead of putting it where it belongs.

Hon. Mr. VENIOT: The burden is carried here.

Hon. Mr. FULLERTON: We will get the particulars for you and give them to you to-morrow.

Mr. HEAPS: May I ask a question as to the item of \$200,000?

Hon. Mr. FULLERTON: That is a matter I was going to draw to the attention of the committee. We have here an item of operating profit of \$200,000 on the Canadian Government Merchant Marine. I understand that line has been sold, so instead of finding \$199,450 we shall have to find \$399,450.

Mr. HEAPS: I should like to ask if that represents actual profits or—

Hon. Mr. FULLERTON: Estimated profits for the year.

Mr. HEAPS: —operating income only?

Hon. Mr. FULLERTON: Operating income. Now at the end of March I may tell you that the Canadian Government Merchant Marine had an operating profit of \$78,078; the Canadian West Indies fleet had an operating profit of \$98,911.

Mr. HEAPS: What about the interest charges against the steamships?

Hon. Mr. FULLERTON: The West Indies fleet?

Mr. HEAPS: Against the Canadian Government Merchant Marine in the first instance, and then against the West Indies service.

Hon. Mr. FULLERTON: Against the West Indies service there is an issue of bonds. The actual yearly interest is \$470,000, and the estimated deficit for the year is \$399,450.

Mr. HEAPS: On income alone?

Hon. Mr. FULLERTON: After providing for bond interest.

Mr. HEAPS: That means you have to add the two together?

Mr. KINLEY: There is an operating profit.

Hon. Mr. FULLERTON: After providing bond interest the deficit is \$399,450.

Mr. KINLEY: The total deficit?

Hon. Mr. FULLERTON: Depreciation, of course, is not included in that.

Mr. KINLEY: Chargeable against revenue?

Hon. Mr. FULLERTON: We call this income deficit.

Mr. HEAPS: What do you do in regard to repairs to the ships?

Hon. Mr. FULLERTON: That is an operating expense. It is all charged to operating expenses.

Mr. KINLEY: Now with regard to those Canadian National Steamships—pardon me, Mr. Heaps.

Mr. HEAPS: I should like to go further into the item of \$200,000. Has the whole fleet been sold, Mr. Howe?

Hon. Mr. HOWE: Yes, the fleet has been sold.

Mr. KINLEY: Which one?

Hon. Mr. HOWE: The service to Australia.

Mr. KINLEY: Not the west Indies fleet at all?

Hon. Mr. HOWE: No.

Mr. HEAPS: The only ships the government has now are the West Indies service?

Hon. Mr. HOWE: That is all.

Mr. HEAPS: There will be no operating deficit next year?

Hon. Mr. HOWE: Yes. The West Indies estimated deficit, as the chairman points out, is \$399,000.

Mr. HEAPS: I am speaking of the other service.

Hon. Mr. HOWE: No; there will be neither a profit nor a loss.

Mr. KINLEY: The deficit is the bond interest, \$399,000, that is all?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: There is an operating profit, but the bond interest brings it down to that deficit?

Hon. Mr. HOWE: Yes.

Mr. KINLEY: The point is this: In the whole setup of the Canadian National system, no part of it is doing much better than these boats have done in the last few years.

Hon. Mr. HOWE: No; they are doing very well.

Mr. KINLEY: They have been doing missionary work for the last few years, and now they are coming into their own.

Mr. HEAPS: That is right.

Hon. Mr. FULLERTON: We had an operating profit last year of over \$200,000.

Mr. HEAPS: A few years ago it ran over a million.

Hon. Mr. FULLERTON: Yes, if you include interest.

The CHAIRMAN: I should like to call the attention of the members of the committee to the following facts: The first item of \$200,000 should be struck off, and the amount of money to be provided would then be \$399,450.

Mr. HEAPS: The boats operated for a certain period in this year. When was the fleet sold?

Hon. Mr. HOWE: They are sold as they arrive at Canadian ports.

Mr. HEAPS: Are they all sold now?

Hon. Mr. HOWE: They are sold, but delivery is being made as they arrive in Canada.

Mr. HEAPS: There will be something to show for this \$200,000?

Hon. Mr. HOWE: Perhaps the chairman can give you the estimate. I think there is some little profit on the Australian fleet.

Hon. Mr. FULLERTON: Yes; there was a profit of \$78,000 to the end of March. A lot of our ships have yet to come in, and we possibly may make up that \$200,000.

Mr. KINLEY: The West Indies contribution is \$222,000, and therefore Canada's contribution is only about equal to the West Indies.

Mr. HEAPS: May I go into another aspect of this question? The fleet is being sold to private interests. What guarantee has the government or parliament that the services which Canada has had to Australia and other countries will be continued in a satisfactory manner to us?

Hon. Mr. HOWE: We have an agreement covering five years.

Mr. HEAPS: To give us a service equal to what we are receiving at the present time?

Hon. Mr. HOWE: Yes, or better. We expect the faster and more suitable boats to give a better service.

Mr. HEAPS: Will they use the same boats or other boats?

Hon. Mr. HOWE: They will use other boats as new boats can be delivered. There is one new boat sailing from Manitoba June first.

Mr. HEAPS: What firm or firms bought these boats?

Hon. Mr. HOWE: There were three firms, the Ellerman, Bucknall Steamship Company, the Commonwealth and Dominion Line, and the New Zealand Shipping Company Limited.

Mr. HEAPS: These three corporations purchased these boats jointly and are going to provide a new service.

Hon. Mr. HOWE: Yes jointly they are going to establish a Canadian service.

Mr. HEAPS: You feel from the investigation you made that the service they are going to give will be equal to the service we are receiving at the present time?

Hon. Mr. HOWE: Yes equal to or better than.

Mr. HEAPS: Do they expect to make it a paying proposition?

Hon. Mr. HOWE: They hope to.

Mr. KINLEY: Are we giving a subsidy?

Hon. Mr. HOWE: No subsidy.

Mr. KINLEY: It will be English ships that will be chartered to carry on the business?

Hon. Mr. HOWE: Presumably yes.

Mr. HEAPS: Is there any penalty in case of default in giving service?

Hon. Mr. HOWE: Of course we have the covenant and if they void that covenant I think we have recourse.

Mr. FINN: What was the name again?

Hon. Mr. HOWE: Ellerman, Bucknall Steamship Company, the Commonwealth and Dominion Line, and the New Zealand Shipping Company Limited.

Mr. FINN: The Commonwealth and Dominion Line of Australia have their own boats. Are they going to abandon them?

Mr. KINLEY: Are they in the shipping ring, I suppose they are?

Hon. Mr. HOWE: Oh, yes.

The CHAIRMAN: I should like to obtain from the chairman of the trustees what he thinks should be provided in the estimates?

Hon. Mr. FULLERTON: I think the estimates can stand as they are, because we have \$78,000 profit to the end of March and we have all our ships to come in, and I think possible we may reach the \$200,000.

Mr. HEAPS: You are selling the ships when business is on the up-grade?

Hon. Mr. HOWE: We are selling the ships before they disappear. We are immediately faced with the spending of another six million dollars to continue a service that has cost us over \$80,000,000.

Mr. KINLEY: In other words you have to pass the business over to some one who knows the business?

Hon. Mr. HOWE: Yes.

Mr. HEAPS: In other words these private interests feel they are going to lose money on the operation of the ships?

Hon. Mr. HOWE: I don't know; I did not ask them that. I daresay they think they can operate them at a profit; we know we cannot.

The CHAIRMAN: Shall the estimates pass?

Carried.

Mr. FINN: I was going to ask the minister if the agreement indicates what the intention is with regard to the captain, the officers, and the crew. If he has not the item there to-day, we can get it from him later.

Hon. Mr. HOWE: The agreement has not be completed as yet.

• Mr. FINN: You tabled some documents to-day.

Hon. Mr. HOWE: No, I have not tabled any documents as yet. I won't be able to do so for two weeks. They have to go to England to get the seal of the English company.

Mr. KINLEY: There is an undertaking, I believe, to keep the crews, is there not?

Hon. Mr. HOWE: Yes, but if a man does not behave himself they will not keep him on.

Mr. KINLEY: They are all taken on anyway. What about replacements?

Hon. Mr. HOWE: Repairs?

Mr. KINLEY: Replacements of the men. I understand we have an agreement with the West Indies whereby we must take one-half of the crew from the West Indies on the West Indies' boats. There is some agreement with the West Indies about one-half of the crews being from the West Indies.

Mr. FINN: That is not so.

Mr. KINLEY: I think it is.

Mr. FINN: I have travelled on them and know it.

Mr. KINLEY: If these British ships are going to do business with this country there should be some provision whereby we ensure labour for our men upon the sea.

Hon. Mr. HOWE: They take over our crews. We assume the men will make good, will do their work and will continue in employment. That is about all you can do for any man.

Mr. KINLEY: Cannot we make a condition that their crews must always consist of a certain percentage of Canadians?

Hon. Mr. HOWE: A large number of these men are Englishmen as far as I can make out. That is what I have been told.

Mr. KINLEY: That is what I am complaining about. So long as we have that merchant shipping agreement which was passed concurrently with the statute of Westminster, we will never have a national marine in this country, and our men on the coast will not have the opportunity to become sailors.

Mr. PARENT: The C. P. R. have one per cent.

Mr. KINLEY: I know they do not do anything for the Canadian sailors.

Mr. HEAPS: They are not born sailors.

Mr. KINLEY: Yes they are.

Mr. FINN: It seems to me, Mr. Chairman, that I have had the opportunity, inasmuch as I have travelled quite often on these ships—

The CHAIRMAN: Pardon me. First of all I would like the members to know that Mr. Finn is not a member of the committee and would like the consent of the committee to hear Mr. Finn (Carried).

Mr. FINN: Of the ten boats that are to be sold the two largest are 10,000 tons, the *Challenger* and the *Cruiser*. The *Britisher*, *Highlander* and *Scottisher* are 8,000 tons. Now, on all these ships with one exception, I think, the captains are Nova Scotians, and the officers are also Nova Scotians. As a matter of fact, I know that there are to-day in Nova Scotia young men of 26 years and 27 years who hold foreign-going certificates whose hopes and aspirations were that there would be an opportunity for them to go in as others went out. It seems to me that these ten ships plying between Halifax and Saint John through the Panama Canal to New Zealand and Australia in the winter, and in the summer back to New York and Boston and up the St. Lawrence, should be manned by Canadians. They are mostly Nova Scotians. Unless there is some hard and fast binding agreement on these companies we will find within a year that the same condition exists as exists to-day in the C.P.R., where it is almost impossible to find a Nova Scotian or men from New Brunswick, Prince Edward Island or Québec, or any Canadians on board of these ships. These ships of the C.P.R. are receiving subsidy. They buy all their supplies in England, and I suppose the same conditions will prevail in these ships that are going to take the place of the Canadian Merchant Marine, the Lady boats and the Vagabond boats that run down to the West Indies, Nassau and Kingston. If you give the right to the owners of these companies, the moment these boats become their own, or at any rate within six months or a year, these men will be let out in order to employ Australians or New Zealanders, and Canada will have lost a great asset. Our young men will be put out of employment, men who, as I say, have passed their examinations and hold these foreign-going certificates. I think it is really a question that is fraught with a great deal of misapprehension on the part of our people, and I think that if what I predict does take place the result will be that the people of the Maritime provinces at least, speaking particularly for the province of Nova Scotia and for my good friend Mr. Kinley, who is a member of your committee, our people will be stunned. We are trying to build up Canada and yet we sell our ships to New Zealand, Australian and English concerns, and then we find—and I say this kindly—that these very ships that we are selling because we do not want to replace them continue to operate and Canadians will be released and in five years the position will be very, very bad. I suggest to the Honourable Minister of Railways and Marine that every precaution should be taken to ensure that the greatest protection is afforded to our Canadians who are in these ships; otherwise it will be an awful blow. I look upon it as a great disaster and catastrophe to the men who love the sea and who follow it, and who are competent to command these ships and to fill the various positions on them from sailor lad up. I know a chap from Prince Edward Island who was third officer some years ago. He had been a bank clerk and ultimately captained one of the Lady boats, Captain E. Cameron.

Mr. HEAPS: We agree.

Mr. FINN: I beg your pardon?

Mr. HEAPS: We agree with you.

Mr. FINN: I do not want to say anything that is embarrassing, but I suggest to the Honourable Minister of Railways and Marine, with all due respect, that every precaution should be taken to protect our men, because otherwise I do not know just what will happen. Nor do I know what will be the opinion of our people in the maritimes. I speak, as I said before, for Nova Scotia, and I shall

not be able to offer any excuse to our people, and they will think I have been very lax in my duty, and I have always tried to avoid that in my public life. I have always tried to hew close to the line and stand by those who sent me here to look after their interests.

Mr. KINLEY: I rather agree that Shipping should be put in the hands of people who know the business, but it seems to me that in the reorganization or cleaning up of the Canadian National Railway System we down on the sea coast are likely to receive the first blow. We cannot hope to compete with the Englishmen in the matter of sailors or ships. They pay their men less than we do. Their ships are heavily subsidized. The English heavily subsidize their ships, and so does the United States. Now they are forming a Canadian company, which is all to the good. To all intents and purposes it will be a Canadian company, but they will bring in British ships, and that means that so far as our aspirations with regard to shipbuilding in Canada for the next few years are concerned, they are doomed. They say they pay their men seven per cent less than we do. As conditions are to-day on our coast, pay does not mean very much; it is a chance to go to work. They can get men in the maritimes to-day just as cheap as in China, if they will give them a job at sea. There is no use talking about what has been done.

Can I impress upon the committee or the trustees or whoever are in charge that in the making of this agreement provision should be made that these ships shall be manned by Canadians, and that Canadians shall have the first opportunity. The United States have before their Congress at this moment a bill that provides that in their coastal trade and in their foreign trade their men shall be adequately protected. That is, they must represent a large percentage of the crew in the foreign trade and one hundred per cent in the coastal trade. After all, this part of the Canadian National movement has not served us so badly. These ships enormously increased our trade with Australia and the Antipodes. You cannot make a profit in any business during the first period. It appears that they received no subsidy from the Canadian Government. If you had given the subsidy to these boats it would have been a great deal more than the deficit. They carry the flag of Canada which is thought of with some little pride by the Canadian people. So far as the maritimes are concerned, there is nothing our men can do except go fishing or go to sea, and if you deprive them of the opportunity to go to sea there is nothing else left for them to do, because they must live by the sea. There was a time when Nova Scotia was one of the greatest shipping countries in the world. They have that tradition behind them. The centralizing of shipping has destroyed that condition. I thought that with the advent of Diesel power we might get back on the sea, but with the Merchant Shipping agreement scrapped in England we have no chance, because even our coastal trade is open to the whole Empire. I say it is not fair. I think we have a grievance; and when this bargain is made I must impress upon everybody that we must protect our men.

Mr. HEAPS: Under what registry will these ships sail?

Hon. Mr. HOWE: British registry.

Mr. HEAPS: But these ships that we are going to receive from the new company? It may be a Canadian company, but the ships could be registered in any part of the world. I am inclined to think that they will not be under Canadian registry, and that they will not perform the services that the Canadian Merchant Marine performed.

Hon. Mr. HOWE: I am inclined to think that is true. That is what we contemplated.

Mr. FINN: Let me point this out as an illustration. We had the D.A.R. and the Dominion Atlantic Steamships, an English company. They built the Prince Arthur, Prince George and Prince Edward. These boats plied between Yarmouth

and Boston. All supplies were bought in Yarmouth and the crews were maritime men, practically all Nova Scotians. Overnight what happened? When a Prince boat arrived at the end of its usefulness, and the C.P.R. who were the owners of the stock, had to replace them, they went down to Boston and paid good Canadian money into the Eastern Steamships Company and the Eastern Steamships Company received from the American government under Mr. Hoover as President a loan of 60 per cent and 40 per cent without any return. These ships were built: the *Yarmouth*, the *Acadia* and *Evangeline*, and what was the result? The result was that men like Captain Crosby, who for years had been in the Prince boat as captain, and Captain McKinnon and other officers, went over to Boston, took up residence there, became American citizens, and took the United States marine examinations. They left Nova Scotia as Nova Scotians and came back on American ships as aliens. To-day all the supplies for those ships are bought in Boston, none in Yarmouth. Even the time-tables are printed in Boston.

Then if you go to the railways, you will find similarly depressing conditions to-day in Nova Scotia. At Kempville they even took the buttons off the men's coats and put on C.P.R. buttons. They changed the stationery. They took the engines and cars to Montreal to repair them, and I understand they are going to superannuate Mr. George E. Graham, Vice-president and General-manager, and it will not be long before the shops are absolutely closed at Kempville and there will be no more local interest and no more local employment, for everything will be centralized in so far as the D.A.R. or the now C.P.R. is concerned. They changed it over for the purpose of increasing the value of their assets, so that they would be able to go out and get directly or indirectly here or somewhere else \$40,000,000, \$50,000,000 or \$60,000,000, and show greater assets.

That is the condition that the little province of Nova Scotia is being placed in today, and if our people are going to be deprived of the opportunity of earning their livelihood at sea and on shore, in ships and on the railways, there is nothing left for them to do but to go to some other land or go down to that six feet of earth and requiescat in pace!

Mr. HEAPS: It seems to me to be an unusual procedure whereby the government, without the consent of the committee or of parliament can get rid of the ships of the Merchant Marine. The Minister of Railways and the man in charge of the Merchant Marine apparently can take hold of a utility owned and controlled by the government without even consulting the officials of the department—I think I am right in saying that—and without consulting parliament and dispose of the ships.

The CHAIRMAN: The question of disposing of the Merchant Marine came before us time and again, and it was the consensus of opinion that if it could be sold for one dollar it would be a good piece of business. It is hardly fair to say it did not come up before the committee.

Mr. HEAPS: Yes, but I think before action is consummated the committee should be apprised of all the facts and details.

Mr. KINLEY: We cannot sell the Canadian National Railway, because it cannot be moved out of the country.

Mr. HEAPS: If you carry that same principle out, when parliament is not in session they can get rid of the Canadian National Railway System without our knowing anything about it.

Mr. BOTHWELL: I have listened to these remarks with a great deal of interest. Personally I am not concerned about whether they close Kempville in Nova Scotia or not as long as the Canadian National Railway is making an advance by closing it. I am concerned, however, about the remark made by Mr. Finn to the effect that the time-tables are printed in Boston.

Mr. FINN: Not the Canadian National time-tables.

Mr. BOTHWELL: I think we should ascertain whether the time-tables are being printed in Boston and whether the work is being given to American workmen rather than Canadian.

Hon. Mr. HOWE: Mr. Finn's remarks with regard to time-tables referred to the Eastern Steamships Company, a wholly owned American shipping company.

Mr. FINN: And the C.P.R.

Hon. Mr. HOWE: Surely not the C.P.R. time-tables?

The CHAIRMAN: I think the whole of that discussion has been out of order for the last quarter of an hour. The chairman of the board informs me that the amount to be provided for will be \$399,000 and not \$199,000 as mentioned in the report. After mature consideration that is what the chairman of the board informs me.

Hon. Mr. FULLERTON: You cannot mix the two accounts.

Mr. YOUNG: What control is there over shipping rates?

Mr. KINLEY: None; they are in the shipping ring.

Mr. YOUNG: I am not asking you, I am asking the men who came here to tell us about these things.

Hon. Mr. FULLERTON: Of course, that is entirely a matter for the government. The government have made the contract. Mr. Howe will have to explain that.

Hon. Mr. HOWE: Do you mean under the new regulations?

Mr. YOUNG: Yes, when we had our own Merchant Marine I take it we had something to say about rates.

Hon. Mr. HOWE: Who?

Mr. YOUNG: I do not know. I am asking you.

Hon. Mr. HOWE: The operators of the line?

Mr. YOUNG: Is it controlled solely by competition?

Hon. Mr. HOWE: Yes.

Mr. YOUNG: There is no controlling body similar to the Board of Railway Commissioners?

Mr. HEAPS: Is there not a shipping ring?

Hon. Mr. HOWE: You have the Pacific Conference and the North Atlantic Conference, but that is an association of owners of ships.

Mr. HEAPS: Does not the shipping company that has taken over the Canadian Merchant Marine belong to what is commonly termed a shipping ring?

Hon. Mr. HOWE: I suppose so.

Mr. HEAPS: Would not the rates in that case be controlled by the shipping ring?

Hon. Mr. HOWE: Surely. All rates are.

The CHAIRMAN: Carried? (Carried)

Mr. FINN: I just want to say this—

The CHAIRMAN: Mr. Finn, I think you have been given a very full opportunity to address this committee. You have been out of order for some time.

Mr. FINN: I am sorry if that is so.

The CHAIRMAN: We will go back to page 18 of the report and I will ask Mr. Fairweather to read the profit and loss statement.

Mr. FAIRWEATHER: This is a comparative statement for the years 1934 and 1935:—

	Year	
	1935	
CREDITS:		
Credits from retired Road and Equipment	\$ 24,631	40
Unrefundable Overcharges	3,301	90
Donations	30,328	73
Miscellaneous Credits	583,533	19
Total Credits	\$641,795	22
DEBITS:		
Surplus appropriated for Investment in Physical Property.....	\$ 2,064	34
Debit Discount extinguished through Surplus.....	22,579	91
Miscellaneous appropriations of Surplus.....	27,681	07
Debits for retired Road and Equipment.....	29,111,717	21
Delayed Income Debits	48,295	61
Miscellaneous Debits	1,938,650	64
Total Debits	\$31,095,626	64
Net Profit and Loss Items <i>Debit</i>	\$30,453,831	42
Net Income <i>Deficit</i> transferred	48,878,181	67
Interest on Dominion Government Loans	35,949,676	70
System Net <i>Loss</i>	\$115,281,689	79
Deduct: Contribution for deficits from the Government		
	1935	1934
C. N. Railways	\$41,795,757 24	\$42,589,824 96
Eastern Lines	5,265,373 20	5,434,133 74
P.E.I. Car Ferry & Terminals	360,334 36	383,942 00
		47,421,464 80
Eastern Lines' interest on Government Loans		626,413 21
Change during year in Profit and Loss Account	\$ 67,233,811	78
Balance at January 1st	789,040,675	42
Balance at December 31st	\$856,274,487	20

Mr. BOTHWELL: Mr. Chairman, the profit and loss statement is rather general in the way it is worked out there. I would like to know something about what the operation of the Canadian National hotels has been, the profit and loss statement in that connection.

Mr. HOWARD: You get that under the operating expenditures.

Mr. BOTHWELL: It is properly under this head.

Hon. Mr. FULLARTON: We had an operating profit last year of \$101,770. The year before we had an operating profit of \$37,000.

Mr. BOTHWELL: That is operating profit?

Hon. Mr. FULLERTON: Yes.

Mr. BOTHWELL: How much money have we invested in these hotels?

Mr. LABELLE: About \$35,000,000.

Hon. Mr. FULLERTON: \$35,428,000.

Mr. HEAPS: In the hotel properties?

Mr. BOTHWELL: How much has the capital investment been increased in say 1934-1935 in hotels?

Mr. KINLEY: While you are getting that figure, can the chairman of the board tell us the loss on the Halifax and Southwestern Railway, the operating loss for the year.

Hon. Mr. FULLERTON: We can get that figure for you.

Mr. KINLEY: Do not let me interrupt Mr. Bothwell.

Hon. Mr. HOWE: Page 25 of the Annual Report, under Additions and Betterments less Retirements.

Hon. Mr. FULLERTON: \$258,000 in 1934 and \$535,000 in 1935.

Mr. BOTHWELL: That is the increase in the capital in the years 1934-1935?

Hon. Mr. FULLERTON: Yes.

Mr. BOTHWELL: What possible justification has there been for opening the Bessborough Hotel in Saskatoon, for instance?

The CHAIRMAN: Mr. Young may answer that question.

Mr. BEAUBIER: If the building was there, why not use it?

Hon. Mr. FULLERTON: We believed that in view of improving business conditions we were justified in opening the hotel, and we believe now that we can carry it on with a very small deficit. That is the opinion of our hotel manager. The building was standing there. Something had to be done. We still have the Vancouver Hotel. What we are going to do with that it is difficult to say. In that case we are spending a little money carrying out contracts that were let some years ago, spending just as little as possible. We feel that unless we do that we will have tremendous pressure brought on us to open that hotel, which we do not want to do at the present time.

Mr. BOTHWELL: Has the contract situation that existed some years ago anything to do with the Vancouver situation?

Hon. Mr. FULLERTON: I do not follow you.

Mr. BOTHWELL: I understood that there was an arrangement some years ago between the Dominion Government and the City of Vancouver in connection with certain things that had to be done, and this hotel was the result.

Hon. Mr. FULLERTON: It was the Canadian Northern Railway.

Mr. BOTHWELL: I wonder if what you are doing now has any relation to those arrangements?

Hon. Mr. FULLERTON: We constructed the hotel and we have been spending as little money as possible, but we are simply carrying on in order to prevent a lot of trouble. It has to be completed some day.

Mr. BOTHWELL: Has that agreement been declared to be ultra vires?

Hon. Mr. FULLERTON: The agreement between the C.N.R. and the City?

Mr. BOTHWELL: Yes.

Hon. Mr. FULLERTON: Not that I am aware of.

Mr. BOTHWELL: Is the C.N.R. carrying on in order to satisfy the people under that agreement?

Hon. Mr. FULLERTON: No. We have to protect the building, and do a certain amount of work there. That is all we are doing.

Mr. BOTHWELL: Could you tell me, Mr. Fullerton, how much money was spent last year on the Saskatoon Hotel?

Hon. Mr. FULLERTON: Yes, I can give you the exact figure: About \$480,000 was spent last year in furnishing the hotel.

Mr. BOTHWELL: Could you give us any information as to what has been spent since the opening of this year?

Hon. Mr. FULLERTON: Spent in the way of capital expenditure?

Mr. BOTHWELL: Yes.

Hon. Mr. FULLERTON: There is an amount of \$16,000 provided to meet certain contracts that were entered into last year.

Mr. BOTHWELL: Could you tell me what the total investment is in that hotel?

HON. MR. FULLERTON: \$3,531,000 including everything.

MR. BOTHWELL: You have not had time yet, I presume, to figure out whether it is a paying proposition or not?

HON. MR. FULLERTON: No; it is too early yet to figure that out.

MR. BOTHWELL: Has the Board come to any conclusion as to what they are going to do in connection with the Vancouver situation?

HON. MR. FULLERTON: No, it has not.

MR. HANSON: There is one item I do not understand: "Debits for Retired Road and Equipment (1935) \$29,111,717.21; (1934) \$2,875,306.11." Could you, Mr. Chairman of the Board, give us some explanation of that?

HON. MR. FULLERTON: The debits for retired road and equipment?

MR. HANSON: Yes.

MR. FAIRWEATHER: That was referred to last year in the committee, and a special pamphlet was presented to the committee last year showing that situation. Anticipating that it might come up again this year we have copies of that here for distribution, and it will tell the whole story.

MR. HANSON: May I have a copy of that pamphlet?

MR. FAIRWEATHER: Yes, there are copies for everybody.

HON. MR. VENIOT: Under the heading of Operating is it wise to ask what was the revenue from the Caraque branch of the eastern division?

MR. HUNGERFORD: I do not think we would know. We do not keep it on an individual unit basis of that kind. We can get it, but we do not keep it otherwise.

HON. MR. VENIOT: Nor the expenditures?

MR. HUNGERFORD: No.

HON. MR. VENIOT: Just take a note of that.

MR. FAIRWEATHER: We will see if we can get it.

MR. PARENT: I want to know how much money has been spent on radio and colonization, and how much money has been spent for the printing of circulars every week which have ten to fifteen pages.

MR. FAIRWEATHER: I understand we do not pay anything.

MR. PARENT: On radio?

MR. FAIRWEATHER: I understand so.

MR. PARENT: What system are you using?

MR. FAIRWEATHER: I do not know.

MR. PARENT: I want to call the attention of the committee on this point and to tell Mr. Laforce that he is paid by the C.N.R. to work for the C.N.R. and not to make politics through colonization.

The CHAIRMAN: We will take note of it, Mr. Parent. Will you now take up the operating revenues, Mr. Fairweather, on page 20?

MR. FAIRWEATHER: This is a detailed statement of the operating revenues of the system from rail service:

Freight.. . . .	\$132,086,587 75
Freight—Government contribution Maritime	
Freights Act, 1927.. . . .	1,658,183 90

HON. MR. VENIOT: That is the share the C.N.R. got, with 20 per cent reduction?

MR. FAIRWEATHER: That is the share of the Canadian National Railways.

HON. MR. VENIOT: You have nothing to show what the C.P.R. gets?

MR. FAIRWEATHER: No.

Mr. HEAPS: It is in the estimates.

Mr. FAIRWEATHER: That is purely Canadian National. Next is:

Passenger \$16,644,699 86.

Mr. HEAPS: Before you pass that item, I notice that the business of last year was better than the year before?

Mr. FAIRWEATHER: There was a decrease of about \$120,000 which was ascribable to the decrease in freight revenue on the eastern lines. That is of the category of traffic covered by the agreement.

Excess baggage \$ 76,295 07

Sleeping car 957,319 97

Parlour and chair car 138,805 31

Mr. HEAPS: I noticed something in the newspapers about a reduction in the cost of sleeping car service.

Mr. FAIRWEATHER: A change in the rates.

Mr. HEAPS: Does that apply all over the system in Canada?

Mr. FAIRWEATHER: Yes, the C.P.R.

Mr. HEAPS: Could we have some particulars about that?

Mr. FAIRWEATHER: This is a summary.

Mr. HUNGERFORD: I might explain that there had been a movement in the United States covering a period of years in which the passenger rates have been ending to be reduced. The matter came to a head in the eastern territory through an order of the Interstate Commerce Commission to reduce rates all over the United States. It required a reduction in the northeastern territory, but the western territory and the southern territory have apparently reduced their rates. That created a situation in Canada that required consideration because of the international rates involved and the competition of American lines. After a great deal of consideration on the part of the Canadian railways it was decided to make a moderate reduction.

Mr. HEAPS: Will the reduction which you are making effective June 1st compete with the rates in the United States?

Mr. HUNGERFORD: No.

Mr. HEAPS: It will be much higher still?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: What about your ordinary passenger rates? They have been reduced considerably in the United States by order of the Interstate Commerce Commission.

Mr. HUNGERFORD: The existing coach rate was 3.45 cents.

Mr. HEAPS: In Canada?

Mr. HUNGERFORD: It was the maximum rate authorized by the Board of Railway Commissioners in 1920, and that has been reduced to a basic 3 cent rate.

Mr. HEAPS: And it will be 2 cents in the United States?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Do you think you will be able to compete with passenger traffic in the United States?

Mr. HUNGERFORD: That class of traffic is not largely competitive with the American lines. The Canadian situation differs from the American situation from the fact that we have run these excursions to such an extent which the American lines, generally speaking, have not done.

Mr. HEAPS: In the western part of the United States you do get a very low mileage rate west of Chicago?

Mr. HUNGERFORD: 2 cents a mile.

Mr. HEAPS: It is less than that.

Mr. HUNGERFORD: May be it is on return trips.

Mr. HEAPS: On short tickets you get a very low rate.

Mr. HUNGERFORD: There has not been any unanimity with regard to it.

Mr. HEAPS: Mr. Hungerford, have these excursion rates not have had the effect of increasing the traffic on our railways?

Mr. HUNGERFORD: We believe that, Mr. Heaps. Undoubtedly a great many more people have travelled but the revenue has not increased a great deal. You have to carry so many more people in order to get the same amount of revenue.

Mr. HEAPS: Do you not think it possible that by lessening the rates to average citizens you might induce a much larger number of people to use the railways in this country?

Mr. HUNGERFORD: I think that is the tendency. I think lower rates tend to promote travel.

Mr. HEAPS: Do you not think that the proposed schedule of 3 cents a mile is still heavy?

Mr. HUNGERFORD: We do not know about that. It seemed unwise to go too far initially in connection with that matter. The best thing to do is to experiment and find out what the result is going to be. No one can tell to what extent the traffic will be increased.

Mr. YOUNG: I would like to ask Mr. Hungerford the reason behind the reduction of rates in the United States?

Mr. HUNGERFORD: The Western roads and Southern roads have lost so much of their passenger business to highway traffic that they felt they were compelled to do it in order to retain any reasonable proportion of their business. The Eastern roads took a different view, and they fought the reduction bitterly and are continuing to do so. They can see nothing but a great loss of revenue.

Mr. YOUNG: I wanted to say a word about that to the minister. I understand that you pay a tax on these tickets which is taken for governmental revenue. Is it a wise policy to tax an industry which in itself is not a paying industry? Is that a good place from which to get revenue? Perhaps I should be directing my remarks to the Minister of Finance, but inasmuch as we have only the Minister of Railways and Canals here, I thought I would ask him. It has always struck me as being a very doubtful way of deriving revenue for the country. We are adding something to birth tickets when we know the railways are in severe competition with other forms of travel. Is that the place where we should seek revenue from the country as a whole? I just want to leave that with the minister when he is thinking over some of these matters.

Hon. Mr. HOWE: I will be glad to discuss it.

Mr. BOTHWELL: Is it not a fact that both the United States railroads and the management of the Canadian National Railways have come to the conclusion that these reduced rates have been conducive to additional traffic which means revenue?

Mr. HUNGERFORD: Well, there is considerable difference of opinion about that, Mr. Bothwell. Some think one thing and some think another. The question is really to what extent you can increase your traffic, and on what basis of fares you can get the greatest amount of net revenue out of it. That can only be determined, I think, by experiment.

Mr. BOTHWELL: Have you not experimented?

Mr. HUNGERFORD: We have experimented in special fares for periodical excursions. There has been no change since 1920 in the basic fares until this time.

Mr. BOTHWELL: Is it not a fact that the American railroads have come to the conclusion that the special rates which they have given and which have more or less been adopted in Canada to a limited extent, have been of benefit to the railway systems?

Mr. HUNGERFORD: The southern and western railroads of the United States think that on the whole they have benefited in the reduction in fares. The eastern roads hold to the contrary altogether. None of them know. While their revenues have increased in recent years to a certain extent, none of them know how much has been due to the effect of reduced fares or how much has been due to the general business recovery. There is no way of measuring it.

Mr. BOTHWELL: Is it not a fact that the Canadian National Railways have made a summary of the success attained through these reduced rates?

Mr. HEAPS: Or special rates.

Mr. HUNGERFORD: You are speaking of the cent a mile excursions?

Mr. HEAPS: Yes, excursion rates.

Mr. HUNGERFORD: We know what the revenue has been.

Mr. BOTHWELL: The management of the Canadian National Railways have come to the conclusion that they have been advantageous to the railway system.

Mr. HUNGERFORD: In a general way, yes. But experience has shown that you can only run these excursions at certain intervals. If you run them too frequently, you do not get the patronage.

Mr. KINLEY: They are like a sale in a store, they are good once only.

Mr. HOWARD: The rate in the United States for coach passengers was 3 cents and they reduced it to 2 cents?

Mr. HUNGERFORD: No, it was 3·6 cents.

Mr. HOWARD: And it is now 2 cents?

Mr. HUNGERFORD: It is 2 cents.

Mr. HOWARD: The Canadian rate was 3·45 which has now been reduced to 3 cents?

Mr. HUNGERFORD: We have reduced it to 3 cents.

Hon. Mr. VENIOT: Mr. Hungerford, is it not a fact that there are no second class rates granted on C.N.R. branch lines taken over after the Atlantic system was merged into the Canadian National?

Mr. HUNGERFORD: I do not know that I can answer that, Mr. Veniot. The second class rate prevails in Ontario and Quebec.

Hon. Mr. VENIOT: My information is—I got it from Moncton, and I may have misinterpreted it—that there are no second class rates, for instance, on the Caraquet road. Why is it that there is no second class rate on a road of that kind?

Mr. HUNGERFORD: We will find that out for you definitely.

Hon. Mr. VENIOT: It is a shame and an injustice to the travelling public. Here you have lumber jacks coming down from the woods and you have no place where they want to go providing them with a second class rate. They have to pay the first class rate, and a great deal of discussion is raised over this point on the trains at times. The general travelling public have no protection.

Mr. HUNGERFORD: We will get all the information for you Mr. Veniot.

Mr. FINN: Has the Railway Commission jurisdiction over passenger rate as well as freight rates?

Mr. HUNGERFORD: Yes.

Mr. FINN: Then there cannot be any discrimination.

Mr. HUNGERFORD: No.

Mr. FINN: Therefore, if you grant it on one part of the line, you must grant it on the other?

Mr. HUNGERFORD: I think that is quite right.

Hon. Mr. VENIOT: I think that on the branch line taken over since 1927 or 1928 no second class rate is allowed.

Mr. HUNGERFORD: I am unable to answer you at the moment in regard to that.

Hon. Mr. VENIOT: It should be looked into.

Mr. FAIRWEATHER: Continuing:

Parlour and Chair Car..	\$ 138,805.31
Mail..	3,260,087.96
Express..	8,637,700.57
Other passenger train..	50,143.89

Mr. YOUNG: Are you in a position to inform the committee what proportion of mail in Canada is carried by both railways?

Hon. Mr. VENIOT: The C.P.R. carries more than the C.N.R.

Mr. FAIRWEATHER: In Canada our revenue for mail for 1935 was \$2,785,484.49, and for the C.P.R. it was \$3,532,709.59.

Mr. KINLEY: There is an item of \$3,260,000.

Mr. FAIRWEATHER: Yes, but we have lines in the United States which also carry mail. This is in Canada only. The figure for the Canadian National Railways, was \$2,785,484.49 and for the Canadian Pacific \$3,532,709.59.

Mr. KINLEY: The C.P.R. has railways in the United States.

Mr. FAIRWEATHER: This is only the Canadian comparison.

Mr. YOUNG: What was the mileage of the C.N.R. in Canada and the mileage of the C.P.R. in Canada?

Mr. FAIRWEATHER: We have about 21,000 in Canada, and the Canadian Pacific mileage in Canada is 17,000.

Hon. Mr. VENIOT: You cannot regulate or compare the revenue in mail matters between these two railroads by the mileage. It cannot be done. I went into that very fully in 1929 and 1930 when I was Postmaster General.

Mr. KINLEY: What is the number of your mail cars as compared with those of the C.P.R.?

Mr. FAIRWEATHER: I could not tell, but I imagine it would be closely proportionate to the revenue.

Mr. KINLEY: I have heard it said that you did not have cars and therefore the C.P.R. got the business.

Mr. FAIRWEATHER: That is not true at all.

Hon. Mr. VENIOT: The C.P.R. furnishes better mail cars and better conveniences than does the C.N.R.

Mr. BOTHWELL: Is it a fact that the Canadian National, with the innumerable number of branch lines, are not running trains sufficiently frequently to be able to carry mail on account of the development that has taken place through Western Canada?

Mr. FAIRWEATHER: I hardly understand your question. I think we carry mail on nearly all of our branch line trains.

Mr. BOTHWELL: Where you have one train a week and giving a service as though twice a week the railway does not carry mail?

Mr. FAIRWEATHER: Quite possibly in a case like that.

Mr. BOTHWELL: Might that not have something to do with the difference in the figures as between the C.P.R. and the C.N.R.?

Mr. FAIRWEATHER: No. The difference is almost entirely due to the Transcontinental Mail Service.

Hon. Mr. VENIOT: You must not forget that the railway mail service, what we call the railway post office or the post office on wheels, is the same for both railways on the main lines, and very few of the branch lines carry a mail post office on wheels.

Mr. FAIRWEATHER: Mostly pouch mail.

Hon. Mr. VENIOT: But they do distribute from their baggage cars. There is no doubt about it that in the West the C.P.R. is distributing from their baggage cars to a far greater extent than is the C.N.R. It is reaching some small places, and that is one of the causes of the difference.

Mr. BOTHWELL: If that statement is not true, I would not like it to go on the record, because I live in an constituency that is served fairly well by the C.P.R. and I do not believe the C.P.R. is doing what Mr. Veniot has said.

Hon. Mr. VENIOT: What did I say? I said the C.P.R. is delivering more baggage car mail than the C.N.R. and I stand by that. I know it.

Mr. BOTHWELL: You will have to show me.

Hon. Mr. VENIOT: I know it.

Mr. FINN: It was stated in the House the other day by a competent authority that the reason the Canadian National was not getting the Transcontinental mail was because they did not have the postal cars and the C.P.R. had.

Mr. FAIRWEATHER: That certainly is not true.

Mr. FINN: A gentleman close to yourself, Mr. Veniot made that statement.

Hon. Mr. VENIOT: I did not hear that statement.

Mr. FAIRWEATHER:

Express	\$8,637,700 57
Other passenger trains.....	50,143 89
Milk	459,745 36
Switching	2,060,652 72
Special Service Train.....	70,680 56
Other freight train.....	1,223 15

Then there are a number of small items, such as Water Transfers—Freight, \$47,809.46. The next item is, Dining and Buffet \$677,718.83.

Mr. HEAPS: Before you pass that item, it seems to me that from my experience on the railroads, both here and abroad, we are not getting the best out of our dining car service. I suppose the management of the railways have given some consideration to this problem, but I notice that there has been a wholesale reduction in the United States in the dining car service there. I was wondering if there was not some way of getting more out of the dining service than the railways are giving us at the present time. There is no reason why a cheaper meal should not be provided, because there are a great many passengers who travel on the railways who perhaps do not care to spend \$1.50 or \$1.25 for a meal. I believe the dining car service could do something else by providing something in the seats, or something along that line, the same as is done in the United States. The men engaged in the dining car service would be glad to provide facilities for

the getting of food to the people on the train, but they are restricted, I suppose, by regulations or agreements between the railways, and the result is that these dining cars are operating at a great loss. I think if some means were devised, which I think could be devised, a greater revenue would be derived by the railways, and I think the travelling public would find it great convenience.

Mr. HANSON: Is the dining car service paying?

Mr. HUNGERFORD: No. I do not know of any subjects relating to railways that has been discussed as much as the places for and the character of meals than dining cars. For years and years and years we have been experimenting up and down and all around and the net result is just about the same.

Mr. KINLEY: What percentage of your traffic is carried on passes?

Hon. Mr. FULLERTON: I have not the least idea.

Mr. KINLEY: I think the Minister could very well take into consideration the cancelling of all passes in Canada and people who are entitled to travel by indent on what they want to do. It seems to me that on every train every second man has got a pass.

Mr. HEAPS: Referring back to the question of dining cars. I know it is a subject the management has given a great deal of consideration to, but is there anything the management have in mind as to providing cheaper meals on the dining cars for the travelling public.

Mr. HUNGERFORD: It is intended to be put in a new schedule about the 1st of June and that will comprise some lower priced meals. That is being done in conformity with the Canadian Pacific Railway. In addition to that we are trying out an experiment to sell food from the dining car in the front end car.

Mr. HEAPS: Do I understand you are going to carry the food from the dining car to the passengers?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Are the railways going to do that, or are you going to give it out on contract to someone?

Mr. HUNGERFORD: We distribute it by the Canadian Railway News agent on the train, but it comes from the dining car, and the dining car of course gets credit for the food.

Mr. HEAPS: I am just wondering why the Railway News Company should come into the picture at all.

Mr. HUNGERFORD: We would have to employ other help to do this work.

Mr. HEAPS: Is not the present help capable and willing to do it.

Mr. HUNGERFORD: I do not think so.

Mr. HEAPS: Well, is it not being done now under a contract arrangement on the government railway?

Mr. HUNGERFORD: We have an arrangement by which we sell the food according to a schedule of prices to the Canadian Railway News people. They simply take it out of the dining car at certain prices. It is carried by the agents and sold to passengers at a certain price.

Mr. HEAPS: Why should it be done that way? Why could it not be sold direct from the dining car direct to the travelling public?

Mr. HUNGERFORD: You mean, have the passengers go to the dining cars?

Mr. HEAPS: No. You say the agent of the Canadian Railway News will take the food from the dining car and will sell it at a certain price.

Mr. HUNGERFORD: Yes. He takes an order from the individual first and goes to the dining car and gets it.

Mr. HEAPS: Is there any reason why the dining car staff itself should not take the food around to the passengers?

Mr. HUNGERFORD: We keep the dining car staff down to the minimum required to serve meals, and in the vicinity of the meal period you would not have anybody available to do that.

Mr. HEAPS: Are you in a position to give to the committee an idea of the price that is going to be charged under the agreement that you have just referred to?

Mr. HUNGERFORD: I have not got those figures here.

Mr. HEAPS: According to my understanding of it the Canadian Railway News will get a profit out of all proportion to the service rendered.

Mr. HUNGERFORD: It operates on an agreed basis.

Mr. HEAPS: For instance I know that on the United States railway lines you can get a reasonable meal served to you right in your seat if you wish it.

Mr. HUNGERFORD: Yes. All kinds of things are being done in the United States—

Mr. HEAPS: Experimentally.

Mr. HUNGERFORD: —in the matter of bonusing passengers by serving very very cheap and complete meals in various ways. There is no uniformity about it. Dining car prices there are as high if not higher than the prices in Canada.

Mr. YOUNG: Is there an agreement as to the price at which these meals shall be resold?

Mr. HUNGERFORD: Yes.

Mr. BOTHWELL: If the question of passes comes properly under this item I would like to say a word in connection with that. I rode in a coach not so very long ago in which there was not a single ticket collected. They were all passes.

Mr. KINLEY: Sure.

Mr. HANSON: They might have been members of parliament.

Mr. KINLEY: Well, everybody else too.

Mr. BOTHWELL: I believe it is a matter which the minister should take into serious consideration to see whether or not he could take action to see that passes are not issued in the way they are now. I do not care whether you cut out members of parliament, their families and dependents, and that sort of thing or not. We are facing a serious situation in this country in connection with our railways, and if the elimination of passes is going to help, let us eliminate some of them if not all.

Mr. KINLEY: Sure.

Mr. BOTHWELL: I know even since this session opened the opportunity that is given under the Act of getting passes for dependents has been, shall I say exploited; that is possibly not the appropriate word, but it is something like that.

Hon. Mr. VENIOT: Abused, anyway.

Mr. BOTHWELL: "Abused," is right. And I believe it is time for the minister to consider this particular section of the Act, and to deal with it, and see if we cannot stop the exploitation that is being made of our railways through the issuing of passes.

Hon. Mr. HOWE: I am anxious to say that I agree entirely with what Mr. Bothwell has said. Of course, the regulation as to who shall have passes is under the direction of the Board of Railway Commissioners, and I believe the chairman of the Railway Board did some very excellent work in curtailing the classes of persons entitled to passes. However, passes for members of parliament and their families and dependents is statutory, and we can cut down a lot of this burden if

members of parliament themselves would give their serious consideration to the matter. I think members of parliament have considerable power to curb the abuses you speak of.

Mr. BOTHWELL: In my opinion it should be eliminated entirely.

Mr. HUNGERFORD: The board watch it pretty closely.

Mr. KINLEY: As long as members of parliament hang on to their passes I do not see how you can cut them out, but if you cut out every pass in Canada and then said that a man who wants to travel shall requisition for a pass in order to get it I think you would eliminate much of the abuse. I think that would be a good way of getting rid of the whole matter.

The CHAIRMAN: That is what is being done at the present time. You requisition for a pass when you want one. .

Mr. HEAPS: I wonder if the railway pass for a member is really an aspect. I find it is a liability. Constituents sometimes think that because you have a free pass on the railway it will save them sending a delegation to see you. They think all you have to do is jump on a train and go and see them.

Mr. KINLEY: What is the position in the United States?

Mr. HUNGERFORD: I do not think they have any passes in the United States.

Mr. BOTHWELL: I believe passes can be limited, to members of parliament alone. You can cut that out, as far as I am concerned. It will not hurt my feelings. But this thing of making out a requisition to get a pass for dependents in the way it has been done in the past is just fraud.

Mr. KINLEY: It takes in everybody in the country.

The CHAIRMAN: Go on, Mr. Fairweather.

Mr. FAIRWEATHER: Storage—baggage \$12,000; demurrage, \$263,000; telegraph and telephone \$4,009,000; grain elevators \$198,000; rents of building and other property \$290,000.

Mr. YOUNG: Before you pass telegraphs, would you tell us just how that service pays.

Mr. FAIRWEATHER: That is the railway telegraph revenue. We have to have telegraph service to operate trains, and the same pole lines and a good deal of the same wires are used for the commercial service.

Mr. YOUNG: There is no way of separation?

Mr. FAIRWEATHER: You could only separate it on a very arbitrary basis. But from studies I have made of it you get into this position, that it pays us to be in commercial telegraph business because if we did not we would have to pay more for the telegraph service we would have to have to operate our trains.

Mr. YOUNG: When you bought out Western Union was it a paying proposition?

Mr. FAIRWEATHER: The Western Union, that came in through the Canadian Northern.

Mr. YOUNG: Yes.

Mr. FAIRWEATHER: Then we bought the lines down east, the telegraph lines in the provinces of New Brunswick and Nova Scotia. It cuts in to the whole picture.

Mr. YOUNG: I see.

Hon. Mr. HOWE: I see you have an item, grain elevators; do you know just where they are?

Mr. FAIRWEATHER: It can be looked up. That includes elevators all over the system. Some of them are in Chicago.

Mr. YOUNG: What service have you got in the way of telephone?

Mr. FAIRWEATHER: There is one at Tiffin, one at Saint John. They are all over. I know we have one at Chicago, and there is one at Port Huron.

Rents of buildings and other properties \$290,000; miscellaneous \$997,000; joint facility — credit \$353,000; joint facility — debit \$54,000.

Hon. Mr. VENIOT: Does that relate to pool trains?

Mr. FAIRWEATHER: It is in connection with joint facilities that we have with other railways, and rental arrangements.

Hon. Mr. VENIOT: You have joint facilities at Fredericton with the C.P.R.

Mr. FAIRWEATHER: That would be another. That is what would come properly under revenue, part of it; you will find similar items under expense, but that part that comes under revenue would be properly in here.

Hon. Mr. VENIOT: Can you tell me what saving there would be in the joint operation with the C.P.R.

Mr. HUNGERFORD: You mean, in the cooperative movement. Have you got that?

Mr. FAIRWEATHER: What was your question, sir? I did not get it clearly?

Hon. Mr. VENIOT: What saving has there been to the C.N.R. in the joint cooperative movement at Fredericton?

Mr. FAIRWEATHER: I can get you that in a minute.

Hon. Mr. VENIOT: Where we are exclusively using the C.P.R. station.

Mr. FAIRWEATHER: It is about \$8,900 a year.

Hon. Mr. VENIOT: You say that we are saving \$8,900 a year. Do you think that that is a sufficient saving to justify all the inconvenience that is caused to the travelling public on the C.N.R. in that section?

Mr. FAIRWEATHER: It was carefully looked into by the responsible officers of the Canadian National and the Canadian Pacific Railways.

Hon. Mr. VENIOT: It has been carefully looked into by the travelling public too, and it has been very severely criticized. When I go to Fredericton I have to travel away up to the C.P.R. station, and when I want to leave Fredericton I cannot buy a ticket at the C.N.R. station. I have to go a mile and a half or a mile and a quarter further up to the C.P.R. station. The travelling public are beginning to kick, and kick awful hard. For the sake of saving \$8,000 — you are certainly not catering to the public.

Now, there is another question I want to ask. Since that cooperative business has been going on I am informed, I do not say that I am correctly informed, that C.N.R. agents are not permitted to canvass for passenger through rate to Montreal on the old Canadian Eastern. You know what I mean, from Newcastle to Fredericton, a distance of 110 miles. The C.P.R. have their agents in stations such as Blackburn and Boiestown who canvass for through rates to Montreal as against through rates over the C.N.R. from Boiestown to Blackburn via Fredericton to Montreal.

Mr. FAIRWEATHER: I can't believe that.

Mr. HUNGERFORD: We will make a note to look into that.

Hon. Mr. VENIOT: If that is the case it should be stopped.

Mr. HUNGERFORD: It is certainly contrary to the whole spirit of cooperation.

Hon. Mr. VENIOT: There is no cooperation there.

Mr. HUNGERFORD: It has certainly no connection with a cooperative movement.

Hon. Mr. VENIOT: Now, let me ask you this: Up to 1933 or 1934, 90 per cent of the car loadings of flour coming to Gloucester county came in C.N.R. cars. It is the reverse to-day, they are in C.P.R. cars. Why?

Mr. HUNGERFORD: Do you mean, they move by way of Saint John?

Hon. Mr. VENIOT: No, no; not by way of Saint John, they come down by way of the northern track.

Mr. HANSON: The suggestion there is that the co-operation is somewhat one-sided.

Mr. HUNGERFORD: That is just ordinary interchange of cars.

Hon. Mr. VENIOT: How is it, where the C.P.R. are now getting pick-ups at points the C.N.R. used to have? The flour to-day is coming in C.P.R. cars where they used to load it on Canadian National cars.

Mr. HUNGERFORD: You can't tell very much about it from that.

Hon. Mr. VENIOT: Well, it is being done. I have sat there and I have seen that. I have seen the change which has taken place during the last three years.

Mr. HANSON: Where do the cars originate?

Hon. Mr. VENIOT: I do not know; but formerly the flour coming from the same firms came in C.N.R. cars; and to-day flour coming from the same firms comes in cars of the C.P.R. It must be because of lack of looking for business somewhere on the part of the C.N.R.

Mr. HOWARD: Let me ask one pointed question, Mr. Chairman, to the chairman of the C.N.R.: Is there one case of co-operation that you know of, between the C.P.R. and the C.N.R. in Canada, that is equally as advantageous to the C.N.R. as it is to the C.P.R.? Is there one case?

Hon. Mr. FULLERTON: I would think so. We try to get an equal break every time we have any joint agreement.

Hon. Mr. VENIOT: You are not getting an equal break.

Hon. Mr. FULLERTON: It is pretty difficult. I will admit that.

Mr. HEAPS: It is pretty difficult to get an equal break.

Mr. HUNGERFORD: It sure is.

Mr. YOUNG: You are short all the time in the way this pooling business goes on.

The CHAIRMAN: Are we through with operating revenue?

Mr. BOTHWELL: There is one question I want to ask in connection with operating revenues. I do not see anything in there in connection with the hotel system.

The CHAIRMAN: That is separate.

Mr. BOTHWELL: That is being dealt with under a separate section.

Mr. FAIRWEATHER: Yes. That is on page 19.

Mr. BOTHWELL: Unfortunately I came from the meeting of another committee and I haven't got the file with me.

Mr. FAIRWEATHER: Page 19 shows the revenue from hotel operations.

Mr. BOTHWELL: I only wanted to ask this question in order to have it in Hansard. We are dealing with operating revenues. Can you tell me what the operating revenues for the hotel system of the Canadian National Railways was?

The CHAIRMAN: On page 19 of the report: Revenue from hotel operations, \$2,389,894.82. Then you have, expenses of hotel operations, \$2,163,040.77. Then, taxes on hotel property, \$125,083.29; and, net hotel operating income \$101,770.76.

Mr. BOTHWELL: Will you proceed with that particular statement so that you will have it all in the record?

The CHAIRMAN: Do you want me to read it all?

Mr. BOTHWELL: No, but I think you should give the conclusion.

Hon. Mr. VENIOT: I take it that we will come to that section later on.

The CHAIRMAN: Is it your wish that I should read the whole thing?

Mr. BOTHWELL: You presumed to do it.

The CHAIRMAN: I was just calling you attention to the page on which it would be found.

Mr. BOTHWELL: The final word on that page is, net income deficit.

Hon. Mr. FULLERTON: The hotels show a profit of \$101,770.76.

Hon. Mr. VENIOT: Don't say they are making money now.

Mr. KINLEY: They are not making money, they are making an "operating profit".

Mr. BOTHWELL: Operating income, \$101,770.76. I would like to know what the loss has been on this Winnipeg hotel they are operating. I realize that the Canadian National Railway system is not responsible for that hotel, but I would like to know just what the loss has been on that hotel for the year 1935.

Hon. Mr. FULLERTON: There was a loss of \$26,000 on the operation of the Fort Garry Hotel.

Mr. HEAPS: When was that built?

Hon. Mr. FULLERTON: It was built by the Grand Trunk Pacific.

Mr. HEAPS: What year?

Mr. FAIRWEATHER: It was built in 1913.

Mr. HEAPS: That was long before the government took it over.

Hon. Mr. FULLERTON: Yes. It has been a white elephant ever since it has been there.

Mr. BOTHWELL: I would like to get the figures on the Port Arthur hotel.

Hon. Mr. FULLERTON: Port Arthur—\$8,954.

Mr. BOTHWELL: Operating loss, do you mean; or profit?

Hon. Mr. FULLERTON: Profit.

Mr. BOTHWELL: What is the investment in the Port Arthur hotel?

Hon. Mr. FULLERTON: \$1,182,000.

Mr. BOTHWELL: What about the hotel in Saskatoon? When was that opened?

Hon. Mr. FULLERTON: That was opened on December 10th.

Mr. BOTHWELL: Can you give me information about the operating loss or profit during the early months of this year?

Hon. Mr. FULLERTON: I don't think I have that. We can get it for you.

Mr. KINLEY: Hotels are a great factor in controlling ticket sales. I was down in Toronto and bought a railway sleeper ticket, and I notice I got a C.P.R. ticket.

Mr. BOTHWELL: If I can get that, I shall be glad.

Hon. Mr. FULLERTON: Regarding the Bessborough Hotel. To the end of March the loss is \$7,000.

Mr. HEAPS: The operating loss.

Mr. MORROW: That is for three months.

Hon. Mr. FULLERTON: The manager expects to make a loss of not more than \$10,000 the first year.

Mr. MORROW: If we had kept it closed, we would have had a loss of \$30,000; that is if the hotel had been closed.

Hon. Mr. FULLERTON: That is right.

Mr. MORROW: We would have had a loss of \$30,000 if the hotel had been kept closed. You are only losing \$7,000 by opening it.

Mr. BOTHWELL: Will you illuminate the committee by telling us how you make a loss by keeping it closed?

Mr. MORROW: Heating and taxes—overhead. The reason the hotel was opened was because we lose less money with it open than we would if it was closed.

The CHAIRMAN: That is a good reason.

Mr. BOTHWELL: All I am trying to do is answer a lot of questions that have been asked me. I am trying to have them answered here, so that the public may have the information. If these gentlemen can give us any more information in connection with that, I should be glad to have it.

Mr. MORROW: Any time you want any information of that kind, I am sure the trustees or the management of the railway would be glad to give it to you.

Mr. BOTHWELL: It is the public that wants it.

Mr. MORROW: Yes.

Hon. Mr. HOWE: I think the hotels pay all their operating expenses, pay their taxes; I understand they pay for the upkeep of the furniture, provide a fund to keep the furniture in shape; pay for the fittings in general and show a small profit.

Mr. KINLEY: Do they contribute to the insurance fund?

Hon. Mr. HOWE: I cannot say as to that.

Hon. Mr. FULLERTON: They are covered by the insurance fund.

Mr. KINLEY: Charged against their operating expenses?

Hon. Mr. FULLERTON: Yes.

Mr. HOWARD: And the improvement in your operating of your hotels this year, taking off all the operating expenses, is \$67,000 better than it was last year.

Hon. Mr. FULLERTON: That is approximately correct.

Mr. HEAPS: May I ask a question as to the Vancouver situation, in regard to the Vancouver hotel?

Hon. Mr. FULLERTON: Yes.

Mr. HEAPS: Is it opening shortly there?

Hon. Mr. FULLERTON: We are considering that proposition and it is a puzzle what to do with it.

Mr. HEAPS: Is it a white elephant?

Hon. Mr. FULLERTON: I wish somebody could tell us what to do with it.

Mr. KINLEY: What is that.

Hon. Mr. FULLERTON: I say it is a puzzle what to do with it.

Mr. KINLEY: With what?

Hon. Mr. FULLERTON: The Vancouver Hotel.

Mr. KINLEY: Why?

Hon. Mr. FULLERTON: Do you want to open it?

Mr. KINLEY: I do not know anything about it. I asked you why it was a puzzle.

Hon. Mr. FULLERTON: Because if we opened it we would run into an enormous loss. We are bound to. We could not help it.

Mr. KINLEY: Who conceived it?

Hon. Mr. FULLERTON: I did not.

Mr. BOTHWELL: Could you salvage what is in there?

Mr. HEAPS: No, you cannot. I was going to ask if the operating surplus as shown does not include the Vancouver Hotel at all?

Hon. Mr. FULLERTON: No.

Mr. HEAPS: It is put under capital

Hon. Mr. FULLERTON: Yes.

THE CHAIRMAN: We are through with the operating expenses.

Mr. HEAPS: Except for one other factor in regard to the hotel situation. I wonder if the officials of the railway could give us information as to the hotels built up during the time the railways came under government jurisdiction, the hotels that were built that they had to take over as part of the railway problem.

Hon. Mr. FULLERTON: Do you want the figure?

Mr. HEAPS: I imagine it would come in.

Hon. Mr. FULLERTON: The Charlottetown Hotel is the first one.

Mr. HEAPS: Can you give the date?

Hon. Mr. FULLERTON: The Nova Scotian.

Mr. MORROW: He wants the date.

Hon. Mr. FULLERTON: The Charlottetown Hotel was the first one.

Mr. KINLEY: The Nova Scotian pays.

Hon. Mr. FULLERTON: The Charlottetown Hotel was opened in 1931. Then there is the Nova Scotian that was opened when?

Mr. FAIRWEATHER: 1930.

Hon. Mr. FULLERTON: June 23, 1930. The Bessborough is the only other.

Mr. HEAPS: You only had three hotels built in addition to the Chateau Laurier?

Hon. Mr. FULLERTON: That is correct.

Mr. HEAPS: Within the time the railways have been under the jurisdiction of the government.

Hon. Mr. FULLERTON: That is correct.

Mr. HEAPS: Could you give us perhaps the figures as to the values of the properties you erected in that period and the value of the total property. It was given earlier in the afternoon.

Mr. MORROW: You might add the Vancouver Hotel to that.

Mr. HEAPS: Yes. That was by the city of Vancouver.

Hon. Mr. FULLERTON: Between 1923 and 1935 we spent \$25,753,000 on hotels.

Mr. HEAPS: What was the sum prior to that?

Hon. Mr. FULLERTON: About \$10,000,000.

Mr. HEAPS: That includes all hotel properties, such as Hotel Vancouver, Chateau Laurier?

Hon. Mr. FULLERTON: Yes, that includes them all.

Mr. BOTHWELL: I have always understood that Jasper Park Hotel has been a real revenue maker.

Hon. Mr. FULLERTON: What is that?

Mr. BOTHWELL: I have always understood that Jasper Park Hotel has been a money maker for the Canadian National Railway System. Would it be fair to ask what the result is?

Hon. Mr. FULLERTON: Last year we lost \$7,900.

Mr. HEAPS: That is too bad.

THE CHAIRMAN: Gentlemen, that disposes of operating revenues.

Mr. WARD: Would I be permitted to ask a question of the department about something which has occurred to me many times at Winnipeg? There are two daily trains leaving Winnipeg in the evening, one by the C.P.R. at eight o'clock and one by the C.N.R. at six o'clock. Why that train leaves at six o'clock has

always been a mystery to me. I am sure that the C.N.R. loses hundreds and hundreds of passengers every year because it leaves at six o'clock. I have never been able to understand why it is. I had asked every official—that is every railway official—I have ever come in contact with since that train has been operating out of Winnipeg at six o'clock, as to why it left at six o'clock, and every one has expressed the same feelings as I have. They do not know why. Just a few days ago a friend of mine, his wife and daughter were coming east and they wanted to go by the C.N.R. It so happened that the train left at six o'clock. They could not take it owing to friends being there, and they took the C.P.R. A week or so ago another friend of mine was leaving for the east, and he said, "I would like to take the C.N.R., but they leave at six o'clock and I cannot get away. I will take the C.P.R. They leave at eight o'clock." I think there may be a valid explanation, but I think there should be some explanation given to the many inquiries that have been made as to why that is so.

The CHAIRMAN: Can you answer the conundrum?

Mr. HUNGERFORD: Well, in a general way we might say that the schedule that is in force today is that which is best adapted to the requirements of all the communities along the line. We have got to get into Montreal by a certain time to enable the steamship passengers to take their boats. That would be the limiting factor in the east end. Working back from that, we have to do the best we can. What we try to do, we try to leave Vancouver as late as possible. We are fixed as to the time at Montreal.

Mr. HEAPS: Did the C.P.R. not change all that? Did they not leave later at Winnipeg, which made it more convenient to leave at Winnipeg and made it more convenient to land here in Ottawa, and by that means deprive the C.N.R. of a good deal of traffic? If it is possible for the C.P.R., is it not possible for the C.N.R. to do likewise?

Mr. HUNGERFORD: Very doubtful.

Mr. HEAPS: I know you are losing lots of passengers. Taking passengers from Winnipeg, if they left Winnipeg at eight o'clock, they would arrive here about eight on the second morning following. The C.N.R. gets here about six. Passengers do not like getting off at six o'clock.

Mr. HUNGERFORD: Do not lose sight of the fact that the Canadian Pacific runs two trains a day over the transcontinental. The C.N.R. runs only one. Our one train has to do local work as well.

The CHAIRMAN: Gentlemen, if it is agreeable and meets with your wishes, we shall meet tomorrow morning at eleven o'clock. At that time, instead of considering the summary of operating expenses in toto, we will take them piecemeal in order not to duplicate our work.

The committee adjourned at 5.50 p.m. to meet again on Friday, May 1st, at eleven a.m.



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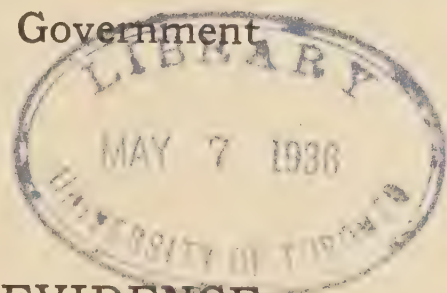
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government



MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

FRIDAY, MAY 1, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

MINUTES OF PROCEEDINGS

THURSDAY, May 1, 1936

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, Chairman, presided.

Members present: Messrs. Beaubien, Elliott (Kindersley), Ferland, Heaps, Howe, Kinley, McLarty, Maybank, Moore, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh and Young

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C. and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Mr. Hungerford filed the following in answer to a question by the Hon. Mr. Veniot at the previous sitting:—

Question: What is the freight rate from Montreal to the maritime ports, Saint John and Halifax, on wheat from the West?

Answer: Montreal to Saint John, 16c. per 100 pounds. Montreal to Halifax, 16c. per 100 pounds.

The Committee resumed consideration of the Annual Report of the Canadian National Railway System, the Officials of the Railway being examined on the following items:—

Summary of operating expenses,
Maintenance of way and structures expenses.

With respect to the practice adopted in dealing with depreciation and the retirement of equipment, the Chairman of the Board of Trustees was requested to file with the Clerk of the Committee,

1. Classification of operating revenues and operating expenses of steam roads, prescribed by the Minister of Railways and Canals, effective on July 1, 1915.
2. Uniform system of accounts for steam railroads, prescribed by the Interstate Commerce Commission and revised to January 1, 1936.

At 1 o'clock the Committee adjourned until Tuesday, May 5, at 11 a.m

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

Room 268

May 1, 1936

The select standing committee on railways and shipping met at 11 o'clock. Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: I think I can see a quorum.

Gentlemen, we had reached, when we adjourned, the item of maintenance of ways and structures expenses. Instead of taking the report as it stands, I should like each member to take the analysis of the 1935 operations and turn to page 7. You will find there not only the determination of each item, but will also find a full explanation, and I think it would be much easier for us to follow what Mr. Fairweather will say, as well as the others.

Mr. FAIRWEATHER: Railway operating expenses. Proceeding now with an analysis of the operating expenses during 1935, the pamphlet entitled Analysis of 1935—

The CHAIRMAN: If you will look on page 21 of the main report you will find the items that are analysed in the other pamphlet.

Mr. FAIRWEATHER: It will be found on page 7 under the head of railway operating expenses. Proceeding now with an analysis of the operating expenses during 1935, it is found that the various charges in size of the physical property as represented by the mileage operated and number of equipment units owned, were as follows:—

Mileage operated:

	As at December 31st.		
	1935	1934	Decrease
Operated road mileage.. . . .	23,684.24	23,734.82	50.58
Miles of all tracks.. . . .	31,989.13	32,066.94	77.81

Mr. YOUNG: Before you pass that mileage figure, I should like to ask you a question in reference to it, but perhaps I had better leave it and ask the questions later on. It might be better to take it up all at one time.

Mr. HEAPS: You might take it out of the main report of the whole statement dealing with the co-operative services between the two railways. I do not know whether it should be taken up now or later.

Mr. YOUNG: Go ahead; we can find it some time.

The CHAIRMAN: You will find a full explanation in the board of trustees' report. We can come back to that whenever you like, doctor.

Mr. FAIRWEATHER:—

Rolling Stock owned:

	As at December 31st.		
	1935	1934	Decrease
Locomotives.. . . .	2,746	2,992	246
Freight train cars.. . . .	97,188	113,065	15,877
Passenger train cars.. . . .	3,070	3,661	591
Work equipment.. . . .	5,915	10,578	4,663

The accounts for 1935 include the retirement on Canadian lines of 16,912 units of obsolete equipment in addition to the normal yearly retirements. The total retirements charged against the 1935 accounts were as follows:—

	Normal Retirements	Extraordinary Retirements	Total Retirements
Locomotives..	26	220	246
Freight train cars..	3,938	11,682	15,620
Passenger train cars..	14	570	584
Work equipment..	550	4,440	4,990
Total	4,528	16,912	21,440

Mr. HEAPS: I do not know whether this is the proper place to raise the question of replacements and new equipment or not, or whether we should take the matter up later.

The CHAIRMAN: You might as well do it now.

Mr. HEAPS: May I ask the board of trustees if they can give the committee any idea as to the new equipment that the railway are ordering, and as to the character of the equipment. I am referring now particularly to the passenger equipment.

Mr. HUNGERFORD: It is in the annual statement.

Hon Mr. FULLERTON: Do you want to know what we ordered last year?

Mr. HEAPS: Yes, and also the character of the new equipment. Perhaps I might explain a little further. There is a tendency, particularly among the American railways, to use lighter equipment than is now in use; and it has occurred to me that our own railways were carrying too heavy a type of equipment, especially on passenger traffic, altogether out of proportion to its cost. I was wondering if in your passenger equipment you are likely to follow the American experiment.

Mr. HUNGERFORD: Mr. Heaps, there is no present intention of ordering any more new equipment; at least we have not given any consideration to it over and above the orders that were placed last fall. The development of new light types of passenger equipment is still in the experimental and development stage. I doubt if anyone has reached a final conclusion as to what the development should be. There is a general concensus of opinion, though, that in the production of additional passenger equipment for future use, alloyed steel, lighter materials, should be employed in order to reduce the weight. I think at the moment that will be the trend of development, that conventional types will be constructed of lighter material.

Mr. HEAPS: The equipment which you ordered last year was of the present type?

Mr. HUNGERFORD: We did not order any passenger equipment last year.

Mr. HEAPS: None at all? Perhaps we might get some idea of the new equipment.

Hon. Mr. FULLERTON: Four hundred automobile cars; 80 sand cars; 8 snow ploughs; 200 refrigerator cars; 250 gondola cars; 5 locomotives, type U-2-D; 5 locomotives, type U-4-A; and 5 locomotives, type S-4-B; and 250 refrigerator cars.

Mr. HEAPS: Was that part of the sum voted by parliament?

Hon. Mr. FULLERTON: Quite so.

Mr. HEAPS: Could we have some idea as to the cost of producing these cars in your own railway yards, and the cost on tender?

Mr. HUNGERFORD: We cannot tell you that yet, on account of the manner in which we treat the accounts. When the work is all finished and the bills are all rendered, we will be able to determine exactly what the cost of a car was.

Mr. HEAPS: I did not catch your last statement.

Mr. HUNGERFORD: After the work is completed in our own shops and we get the bills in and total up the cost from every source, then we will be able to tell what the average cost per car was. We have not been able to do that yet. We start out by estimating the cost in a general way. Heretofore the cost of producing cars of the types that we did build in our own shops, such as refrigerator cars, has been just about the same as when we buy them outside.

Mr. MAYBANK: The opinion seems to be held in railroad circles around Winnipeg that they were about 700 per unit less for the refrigerator cars you built at Transcona, but you think there is no warrant for that statement?

Mr. HUNGERFORD: I should think not, Mr. Maybank, because no one has the figures.

Mr. HEAPS: Is there much of a difference in the matter of wages paid in the railway shops as compared with the wages paid in the shops which do this work by private tender?

Mr. HUNGERFORD: I did not quite follow that; yes, I think that is true. On the other hand, we do not charge as high overhead cost as builders are compelled to do.

Mr. KINLEY: Don't you think that the policy of centralizing your repair shops has been carried a little too far in view of present day conditions? I have in mind places like Bridgewater on the Halifax and Southwestern railway. You have practically dismantled those shops and taken them to larger centres. I think it would be more advantageous to the railroads and to the communities to decentralize and do work in those centres where they have personal control. The superintendent there has personal control of the work, and he knows what he wants. It seems to me it would be important to go back a little to the decentralized idea.

Mr. HUNGERFORD: I think that railroad experience proves the contrary.

Mr. KINLEY: It has?

Mr. HUNGERFORD: Yes. More and more we are required to employ highly developed and expensive tool facilities in the doing of the work.

Mr. KINLEY: On some work, of course, that is true. But there is work that the little shop can do just as efficiently and just as well. It is worth something more to haul to Moncton rather than repair the equipment where it belongs.

Mr. HUNGERFORD: Yes, that is an item of expense; but on the whole our experience has shown it is far cheaper to perform the work in properly equipped shops, shops that have the best machine tools and other facilities, rather than undertake to do it in poorly equipped shops.

Mr. KINLEY: There is a conflict of opinion on that.

Mr. HUNGERFORD: Yes, but not in railroad circles.

Mr. VIEN: Have you any figures showing the ratio of the equipment built in your own shops and the equipment built outside, equipment bought from outside independent firms?

Mr. HUNGERFORD: No, I do not think we have any figures. We can prepare those figures; but in general the proportion of equipment that has been built in our own shops is small. It is only a small proportion of the total.

Mr. VIEN: Would you say it represents 10 per cent, or 15 per cent of the equipment that you buy?

Mr. HUNGERFORD: No, I would not think it would be that much.

Mr. VIEN: It would not be that much?

Mr. HUNGERFORD: I do not think so.

Mr. VIEN: Most of your equipment is bought elsewhere?

Mr. HUNGERFORD: Yes.

Mr. VIEN: Therefore your shops are repair shops mostly, and do repair work?

Mr. HUNGERFORD: Yes.

Mr. VIEN: Have you any past experience which would enable you to compare the cost of building equipment in your own shops with equipment bought elsewhere?

Mr. HUNGERFORD: Well, on previous occasions when we have built concurrently some equipment in our own shops and bought some outside, they have worked out to about the same price.

Mr. VIEN: About the same price. Had you taken into proper account the overhead and fixed charges? Did you take into account or properly apportion your overhead and fixed charges with respect to that?

Mr. HUNGERFORD: We have tried to do that, but there is an essential difference between overhead that has to be allowed for by a private firm and that allowed for by the railroad. The overhead we charge against this work on the railroad is a proportion of the general expenses of operating the plant, including its supervision and all that sort of thing.

Mr. VIEN: The plant proper, the plants themselves?

Mr. HUNGERFORD: And a certain part of the general supervision as well.

Mr. VIEN: Would you mean the overhead expense of the whole system or simply the general superintendency of this particular branch?

Mr. HUNGERFORD: Only to the extent of the supervision that is applied to that particular plant.

Mr. VIEN: Ten per cent or 15 per cent for supervision and engineering would be an arbitrary division.

Mr. HUNGERFORD: Let me give you an illustration. Work is done perhaps at Transcona or Moncton, any one of those shops, but a proportion of the drawings and a degree of supervision of the work is taken care of at the headquarters in the mechanical drawing office.

Mr. VIEN: Would that represent a percentage of the whole cost? For instance, if a car cost \$20,000 to build in your shops, would you add to that 5, 10, or 15 per cent for engineering and supervision, or would you add the exact figures in dollars and cents?

Mr. HUNGERFORD: We would lump those overhead expenses together. For instance, power plant operation, general supervision of plant, light, water and a thousand different things, maintenance of building, maintenance of tools, all come into this lump account and all other expenses are pro-rated on the work going through the shop.

Mr. VIEN: I can understand heating, lighting, taxes, snow removal and other expenses in respect of the plant itself. These are accounts that can easily be followed, but when it comes to your draftsmen in the head office, supervision and engineering and drafting, do you follow the expense and keep a special account of the expenses with respect to the various units built in your shops?

Mr. FAIRWEATHER: Oh, yes. You see, for any new work that is done in the shops as distinct from repair work, it is done concurrently at the shops; but all new work in the shops is subject to sales tax. We have to prepare exact cost figures with regard to that so far as they enter into the cost of the work for sales tax purposes.

Mr. VIEN: Would you have the time of the draftsmen in the head office itemized? I am now referring to the time spent on that particular drawing.

Mr. FAIRWEATHER: I do not think we would carry it to that fineness; that would be done by percentage.

Mr. VIEN: That is what I had in mind.

Mr. FAIRWEATHER: Yes.

Mr. FERLAND: Insofar as the repairs are concerned, Mr. Hungerford, do you not think it would cost less to the company to do more repairs in Joliette, where we have a terminal? My people are complaining. They say that repairs cost less in Joliette than in Montreal, especially when so many empty cars have to travel to Montreal. These cars are travelling empty on a very long run between line point and Joliette, and from Joliette to Montreal, and from some other places. In Joliette we have a contract binding the C.N.R. to do all their repairs there. At the present time you are not doing your repairs there. You are doing them all in Montreal, except a few minor ones. My people state it would cost less to do the work in Joliette than it does in Montreal.

Mr. HUNGERFORD: I think that is a wrong impression, because it is contrary to all experience of railroad administration.

Mr. VIEN: It seems to me if your experience, as you state, is to the effect that it does not cost more to build cars in your own shops than buying them outside, would it not be advisable to keep your shops busier by building more cars in your own shops? For instance, the member for Juliette has pointed out that the shops at Joliette are largely idle when you could be keeping them busy.

Mr. HUNGERFORD: The explanation I think is this—

Mr. KINLEY: On minor repairs, at least.

Mr. HUNGERFORD: Very few of our shops are equipped to build modern equipment. We have been building some refrigerator cars because they largely consist of wood, and our facilities for the construction of the refrigerator cars are comparable to those outside. But when we come to the construction of steel cars and other types of freight cars, large locomotives, our facilities generally are not nearly so good.

Mr. VIEN: What about the St. Malo shops?

Mr. HUNGERFORD: The St. Malo shop is equipped for repair work; it is not equipped for the construction of new rolling stock.

Mr. PARENT: It is a good shop?

Mr. HEAPS: Of course it is.

Mr. VIEN: In regard to the point brought out by my fellow member, are you carrying out repair work outside of your plants at the different places?

Mr. HUNGERFORD: What do you mean by "outside"?

Mr. VIEN: By contract to other firms.

Mr. HUNGERFORD: No.

Mr. MAYBANK: You do all repair work?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: You were saying, generally, our shops are not equipped—

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: Are some of the bigger shops fairly well equipped for manufacturing?

Mr. HUNGERFORD: The answer to that depends upon the equipment you have under consideration. Generally speaking I do not think any of our shops are properly equipped for manufacturing new equipment of the modern types, with the exception of those refrigerator cars that consist very largely of wood.

Mr. YOUNG: From the experience you have would it be more economical in the long run to purchase the property from outside rather than build shops, if you have not got them now, and then build your own equipment?

Mr. HUNGERFORD: On the whole I would say it would be probably cheaper to buy them outside.

Mr. YOUNG: It would be uneconomical to purchase equipment so that you could make your own cars?

Mr. HUNGERFORD: I know certain railroads that have shops that are pretty well equipped to build new equipment, and in general after a lengthy experience they still pursue the policy of buying new equipment outside.

Mr. YOUNG: In other words, you buy them outside not from lack of capital to put up shops, but because you think it is a more business-like process?

Mr. HUNGERFORD: On the whole I think it would be so.

Mr. YOUNG: There seems to be a feeling among a lot of the workmen that work is done elsewhere that might very properly and very well be done at certain points. They have made some representations to the company with regard to this. I would just like to suggest that if it could be done equally well, in a reasonable and satisfactory way, we would appreciate having all the work which normally obtains there locally, done at that particular point. I have a lot of people coming to see me, and if I could avoid having so many callers of that kind, I should appreciate it very much.

Mr. HUNGERFORD: I think the feeling you describe, Mr. Young, exists at a great many points throughout the country.

Mr. MAYBANK: It would be helpful in Winnipeg as well.

Mr. HUNGERFORD: We have had representations for many years.

Mr. VIEN: Could you give me the places where your repair shops are located?

Mr. HUNGERFORD: We will give you the list.

Mr. FAIRWEATHER: Moncton, St. Malo, St. Albans with regard to the Central Vermont, Montreal, Stratford, Battle Creek, Transcona, Fort Rouge, Edmundston, Port Mann and Riviere du Loup.

Mr. HEAPS: That is the most important.

Mr. VIEN: Can you give a short summary of the relative importance of those shops?

Mr. FAIRWEATHER: Yes, I think so.

Mr. VIEN: I do not want to go into too much detail.

Mr. FAIRWEATHER: I suppose you want to judge from the number of employees.

Mr. VIEN: That might be a good guide.

Mr. FAIRWEATHER: Yes. I think I have it here, but on looking I find I have not. I can give you roughly the order, but I am afraid if you want it exactly we shall have to prepare a statement.

Mr. YOUNG: The relative importance would have a very different meaning according to who was looking at it.

Mr. VIEN: How would you distinguish a shop from the point of view of importance, the number of employees?

Mr. FAIRWEATHER: From the volume of work done in the shop.

Mr. VIEN: Will you file a statement with the committee showing the relative importance of these shops from the point of view of the work done and the number of employees engaged? Perhaps you could also give the relative cost of the shops to the system?

Mr. FAIRWEATHER: I think we can prepare a statement very simply on that.

Mr. HUNGERFORD: I think probably the employees will be the best representative figure to give. Any description of the work would lead into large complications, and I do not think it would be very much good. There is all kinds of work going on.

Mr. VIEN: It would be very confusing?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: You realize that the Canadian National Railways get their business from the people of Canada in the small communities. It originates and terminates there.

Mr. HUNGERFORD: Yes, I appreciate that.

Mr. KINLEY: The point is this: In the interest of efficiency and unemployment and all these things, it is much better to leave a little money in the community where you get your business than to leave it in central points. The shops have all been dismantled in the smaller places, and I think you will find it advantageous to look after that. They are efficient shops.

Mr. HUNGERFORD: That is just the point. These shops are not efficient and cannot be.

Mr. KINLEY: Why not? Does it cost too much to develop power?

Mr. HUNGERFORD: They have not got the equipment to do it.

Mr. VIEN: The power in all these shops is steam or electric. Are these shops operated by steam, electricity or other power?

Mr. HUNGERFORD: All the larger shops have electrical transmission. In some places the tools themselves are operated by a motor. In some places we produce electricity but generally we buy it.

Mr. YOUNG: You buy it from places where you can get it?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: You could produce it for a cent with a diesel engine.

Mr. PARENT: Can you tell me if the wages paid in all these repair shops are identical? I am referring to the three divisions, the eastern division, the central division and the western division. Then, in regard to railroad work, do you pay the conductor the same rate in the eastern division as you do in the western division?

Mr. HUNGERFORD: In general there is not much difference; there are some minor differences.

Mr. PARENT: Would you have one of your secretaries file a report on the wages paid in the different sections?

Mr. HUNGERFORD: Do you want them for all classes of labour?

Mr. PARENT: For instance, take an engineer or a conductor.

Mr. HUNGERFORD: I can tell you now.

Mr. PARENT: I am told you have a different wage scale in the province of Quebec and eastern Canada from what you have in the central and western region, and I want to know the reason for such wage scales. That information may not be correct; I am asking you.

Hon. Mr. FULLERTON: The rates are all the result of an agreement.

Mr. HEAPS: A union agreement?

Hon. Mr. FULLERTON: Yes.

Mr. PARENT: Identical in all Canada?

Hon. Mr. FULLERTON: No.

Mr. MAYBANK: Have you two schedules, one for the east and one for the west?

Mr. HUNGERFORD: Let me say this: Insofar as the shop men are concerned, there is one agreement for all railways in Canada, and it covers the entire territory right through to British Columbia and Nova Scotia. But when we come to engine men and train men, the schedules are divided up on a more or less regional basis. There are slight variations and very slight differences in rates that have been preserved for some time, but in general the rates are identical all over the country.

Mr. KINLEY: With regard to this union agreement, I am told that there is serious complaint by the junior men on the road that the senior conductors and the senior engineers have the right to 35 working days a month before they are let out to give another man a chance. If you tied each man down in your agreement to a 28-day month then there would be much relief of unemployment and the junior man would get a territory much oftener than he does now.

Mr. HUNGERFORD: After all that is largely in the hands of the organizations themselves. The scheduled agreement provides for a certain limit of work.

Mr. KINLEY: If there is injustice to the junior men it should be rectified.

Mr. HUNGERFORD: That has been the subject of a great deal of negotiation and consideration ever since it began, and the concessions have been made by the organizations themselves. Under persuasion they reduced the limits a certain degree in order to give junior men more work. That has been done to quite a considerable extent, but you are not going to be able to satisfy all junior men.

Mr. KINLEY: Is it true that the engineers and conductors can get 35 days a month before he must give his place to another man who is idle?

Mr. HEAPS: Is that a correct understanding, 35 days or 3,500 miles?

Mr. HUNGERFORD: The two terms are synonymous in road service; 100 miles represents a day.

Hon. Mr. VENIOT: Is it not a fact that the men in their conventions have agreed to that and asked the railway to accept their agreement? They have agreed to that system of working?

Mr. KINLEY: You can quite see that the senior men would control the convention.

Hon. Mr. VENIOT: I know, but I want to have that fact come out, or denied.

Mr. HUNGERFORD: There have been all kinds of negotiations in the different groups of employees, and developments have been different in different parts of the territory, so that there has been no absolute uniform treatment of the question. But in general, as I said before, we have been able to make arrangements with these groups whereby the work was shared on some basis.

Mr. VIEN: This may be informative, but it is a matter on which this committee can take no action.

Mr. KINLEY: We can bring it to the attention of the management, and they can call it to the attention of the railway men.

Mr. HUNGERFORD: Let me say that the so-called schedules are almost identical with those in force on all railways in North America, in the United States and Canada.

Mr. FAIRWEATHER: To a great extent the railway unions of Canada are controlled by the American unions.

Mr. KINLEY: We can have new schedules drafted, if we have to.

Mr. HEAPS: I am glad to hear the Liberal party talking that way.

Mr. VIEN: Is the McAdoo award still a factor in the schedule of wages?

Mr. HUNGERFORD: No, the McAdoo award as such is not in existence to-day. The scale of wages that was established under the McAdoo award persisted pretty well except there have been reductions here and there during the years.

Mr. VIEN: Do you say the scale of wages in Canada is about the same level as that in the United States?

Mr. HUNGERFORD: They were on substantially the same level, but a ten per cent reduction went into force during the depression, and that has been restored to them. It still remains in Canada.

Mr. MAYBANK: The 10 per cent reduction still obtains here?

Mr. HUNGERFORD: My statement is not quite complete. The maximum reduction in the United States was ten per cent. That has been restored. The maximum reduction for all employees in Canada, with the exception of some special groups, was 15 per cent. Five per cent was restored to them. So, under the existing conditions, Canadian railwaymen with substantially the same rate, had a ten per cent reduction. That does not exist in the United States.

Hon. Mr. VENIOT: Mr. Chairman, may I deal with the matter of railway ties now?

The CHAIRMAN: That comes on the next page.

Hon. Mr. VENIOT: All right.

Mr. HEAPS: I should like to take up for a moment the number of extra men that the Canadian National Railways employed last year as a result of the new equipment and extra repairs authorized by the government. Can one of the trustees give me any idea of how many extra men were put on last year?

Mr. HUNGERFORD: I do not know if I have it here.

The CHAIRMAN: Do you mean the special vote that was granted to help the small shops?

Mr. HEAPS: Yes.

The CHAIRMAN: I think you will find it in the trustees' report.

Mr. YOUNG: Are we on page 7?

The CHAIRMAN: Yes.

Mr. HEAPS: I am speaking in a general way in regard to the whole system.

Mr. YOUNG: I want to ask one more question.

The CHAIRMAN: I think it would be advisable to leave page 7 and turn to page 8, when you are considering the details of these accounts in accordance with the recommendation. For instance, you have maintenance of ways. If you start with maintenance of ways it won't have to be covered afterwards.

Mr. HEAPS: I wonder if it would be possible to get the information I have requested in regard to the number of extra men who were placed in employment in the C.N.R. shops last year as a result of the vote of parliament?

Hon. Mr. FULLERTON: If you look at page 9—

Mr. YOUNG: Are we at page 7 or what?

Hon. Mr. FULLERTON: Page 9.

The CHAIRMAN: We have been rambling all over.

Mr. YOUNG: I want to speak on page 7, and if it is in order, I should like to ask one question. It seems to me to be extraordinary to jump from one page to another. Let us get something finished.

The CHAIRMAN: Yes.

Mr. HEAPS: This is a question that Dr. Young raised himself.

Mr. YOUNG: I am now dealing with extraordinary retirements. Will you explain why there are extraordinary retirements this year, or does that item appear every year?

Mr. FAIRWEATHER: We distributed a pamphlet yesterday that undertook to explain that very thing. We had a program all mapped out for using up in

service a lot of equipment that was not entirely modern. We figured that wearing it out in service was a good way to do it. We made this program I think about 1926, and we figured that if traffic had continued along at a normal level, that equipment would have been needed in service. Well, the depression came along, and it was not possible to wear that equipment out in service, because naturally you would first use the best type of equipment for the traffic that offered. This equipment was put aside, and when the time came that we would normally have retired it through service, we found of course we had no service to retire it with, and consequently as a direct result of the depression we were presented with the situation—it was a situation that was common to all roads on the continent; the United States railways were faced with pretty much the same situation—

Mr. YOUNG: That is an item appearing this year and has not appeared before.

Mr. FAIRWEATHER. No; it is a non-recurring item, a very special thing, arising out of the depression.

Mr. HUNGERFORD: It really divides itself into two things. The constituent rule of the Canadian railways was such that they followed the policy of buying wooden freight cars much longer than other railways did.

Hon. Mr. VENIOT: Try and speak a little louder.

Mr. HUNGERFORD: I shall do my best. The result was that we had a disproportionate number of freight cars of wooden construction. The American railway association for years has been considering imposing a regulation that would prevent wooden cars being accepted and interchanged between railways.

Mr. MAYBANK: Would you allow me to interrupt you? How long did we continue building wooden cars? What was the year of our discontinuance?

Mr. HUNGERFORD: Well the last that I remember myself would be about 1915. I doubt very much if any were built subsequent to that date, but I am not sure. The American roads gradually disposed of their wooden cars. They had a lesser proportion to dispose of. They disposed of them, and the time came when the American railway association ruled that wooden underframe cars would not be accepted on interchange between different roads. There we were. We had those cars that we could have used freely in ordinary interchange service. We would have continued to maintain them because investigation had shown it was slightly cheaper to maintain those wooden cars in use than buy more expensive types of steel frame cars. We found ourselves in the position where we had those cars and could not use them fully. We were limited to the use of them on our own roads, without interchange; so there was nothing to do but dispose of the poorest of the cars in this group, dispose of all of them over and above that proportion that we could continue to use for purely internal movement. That is one thing. The other thing is this: With the growth of highway competition, branch line service has decreased and decreased, both freight and passenger.

Mr. KINLEY: Your branch line service decreased?

Mr. HUNGERFORD: Yes.

Mr. KINLEY: You have no interest there?

Mr. HUNGERFORD: Our branch line business decreased. Naturally train service decreased with it. We found ourselves with a lot of locomotives and passenger cars that could have been maintained and would have been maintained successfully if conditions had continued as they were. But that business had disappeared, and those passenger cars were no longer useful, and there was no purpose in keeping them.

Mr. VIEN: Would it not have been possible to have retained a lot of that business by buying more equipment which was cheaper to operate on branch lines like diesel engines and greater frequency of service?

Mr. HUNGERFORD: Let me say this: this service was not reduced until the business had disappeared, or decreased in proportion. There is a school of thought that claims that the business was lost on those branch lines because the railways reduced their service. Substantially that is not true. We reduced the train service when the business had gone away from us to a very large extent.

Mr. VIEN: The point I am raising is this, the competition of truck and bus became very much more intense when highways became good, and should not the railways have developed a system whereby they could have given a more adequate service, a service more comparable to the competitive service on the highway?

Mr. HUNGERFORD: We have gone a long way in that direction. For instance some ten years ago we developed oil electric cars to provide passenger service on branch lines, and they are run at lower cost. I think we were the first railroad in America to introduce that type of service, and we have done that very well.

Mr. VIEN: But is not the oil electric engine a lot more expensive than a diesel engine?

Mr. HUNGERFORD: That is the difficulty. Oil electrical equipment on the average costs from two to three times as much, and while the operating cost is much less, the fixed charges, depreciation and maintenance, is higher, and one tends to wash out the other.

Mr. KINLEY: Take this example, for instance. My plant is 70 miles from Halifax—

Mr. HEAPS: What do you mean by "my plant";

Mr. KINLEY: Our manufacturing plant. Suppose I want some goods from Halifax. The railway will only take the middle part of the haul. The goods must be trucked to the train from where they originate, and when it gets to the town, it must be trucked to the plant. That is No. 1. No. 2 is this: If I ask for goods this morning and go to the railroad to have them bring them to my plant, they will tell me it may be two or three days, or the next day, depending upon whether it is enough to make up a train. Time is an important item to me on that short haul.

Mr. HUNGERFORD: Quite.

Mr. KINLEY: Time destroys you, and the fact you have to deal with three people instead of one in the case of the truck. You have a serious situation there. That is one of the factors I was trying to tell you about a moment ago. Nobody cares about the railroad any more, because they are centralizing everything in the large cities. They say "The railroads do not care anything about us, and we do not care anything about them." I think there should be an effort made to have a little more co-operation in business.

Mr. HUNGERFORD: I think we do co-operate to a very large extent.

Mr. KINLEY: You took your shops away from Bridgewater.

Mr. HUNGERFORD: And when conditions change you must change the train business.

Mr. VIEN: What is lacking, in my opinion, is a rapid adaptation to new conditions when they arose. I think that the railways could have used a less expensive but more efficient equipment on branch lines, and they also should have been able to use auxiliary service on the highway so as to overcome the competition that comes from the door to door pick-up and delivery of the bus and truck. Is it not possible to do that in some way or another?

Mr. HUNGERFORD: That is a very very large question. That is a question the railways and the Canadian National have been studying very carefully, and experimenting with it for years. The situation was fully realized, but the

solution was difficult to find, and is still difficult to find. We could provide a service on the highway, but there is no guarantee that we would make any money out of it. The probabilities are we would lose money as many trucking lines have lost money.

Mr. VIEN: If you took the trucking end of the operation alone that may be so, but when you take the door to door pick-up and delivery and couple it with the rail haul, the revenues you would derive therefrom would make it a paying proposition. That is what is done with regard to the hotels. Take the Chateau Frontenac at Quebec, or any other hotels in the country. The hotel as a proposition may not be a paying proposition, but if you consider the attraction it has for the travellers who use the railways to get there and back home, the whole thing coupled together becomes a paying proposition. That is what I am trying to urge in respect to the trucking and bus situation. Use it as an auxiliary service to the railway service. It seems to me that as a truck or bus operation it might not pay, but it might have attracted to the railway a lot of traffic, and the rail traffic would have been a paying proposition to the company. I should like to have your opinion on that, I may be wrong.

Mr. MORROW: The volume of business available on the branch lines would not be sufficient to put the new equipment on these routes. You would never get the depreciation out of them. You would never earn your depreciation on the volume of business that you would get.

Mr. YOUNG: There is another factor to be taken into consideration when comparing the bus and the rail. You have to build your own roads, have you not?

Mr. HUNGERFORD: Very much so.

Mr. YOUNG: The country provides the roads for the busses.

Mr. VIEN: I do not believe so.

Mr. PARENT: Roads in the States have been trying that and have not made a success of it. They have a bigger population than we have, and if they cannot make a success of it there I do not think it warrants our trying it.

Mr. KINLEY: You look after the express that way. I was thinking of the short distance haul, and when you take into consideration the time that is lost, it is hard to compete in the matter of freight; your trains are too slow.

Mr. HUNGERFORD: You may not know that the Canadian National in conjunction with the Canadian Pacific is providing a pick-up and delivery service on freight in a large portion of the country. The trouble has been to determine what was the best method and the best arrangement to make, and the best schedule of rates to put into force, and all that sort of thing. We have been carrying on experimental work to secure accurate information for a long time. There is a pick-up and delivery service now, a combination of trucking and railway service over a large portion of the area, and it will be extended just as fast as we can see our way clear to make arrangements. But it does not meet the situation that Mr. Kinley speaks of, the distance of 70 miles.

Mr. KINLEY: You cannot compete with the trucks.

Mr. HUNGERFORD: No; under those conditions I think it is more or less hopeless to expect to get that traffic.

Mr. KINLEY: The average man who runs a truck does not know what his costs are, anyway.

Hon. Mr. VENIOT: The provincial governments are spending large sums of money to keep those roads open in the winter time in competition with the railways.

Mr. HUNGERFORD: Yes.

Hon. Mr. VENIOT: They should never have done that.

Mr. HUNGERFORD: What happens is when roads are blocked up by storms in the winter time is that our receipts of freight go up 30 and 40 per cent over night.

Mr. KINLEY: And passengers too.

The CHAIRMAN: I think we will have the opportunity to take up these points when we are discussing detail. We are not making much progress.

Hon. Mr. VENIOT: Are the railway authorities aware that any of their officials are interested financially in passenger bus traffic?

Mr. VIEN: That is a very serious question.

Hon. Mr. VENIOT: It is not a thing to be laughed at. If a railway official places his capital to encourage the establishment of bus lines, between two important points, and takes traffic from the railroad, I think the railway authorities should be made aware of it.

Mr. HUNGERFORD: I think so too.

Mr. YOUNG: I will concur in the last part of the statement, anyhow.

Mr. HUNGERFORD: I do not know of any such case.

Hon. Mr. VENIOT: I think it might be worth while to look into it in the province of New Brunswick. I will not go any farther with it just now.

Mr. VIEN: I should like to refer to an item on page 7, Mr. Chairman. Did I understand Mr. Fairweather correctly yesterday when he said that retirements and depreciation were synonymous?

Mr. FAIRWEATHER: In the long run as practised by railways there is no difference between the two.

Mr. VIEN: I read at page 11 of your annual report the amount of retirement that you have indicated for the years 1932 and 1936 inclusive vary from \$4,000,000 to \$6,000,000. Would that be any percentage of the investment?

Mr. FAIRWEATHER: Oh, it would be from 1½ to 2 per cent.

Mr. VIEN: Would it be as much as that?

Mr. FAIRWEATHER: Of the depreciable portion.

Mr. VIEN: You have a cash investment in your rolling stock. From 1932 to 1936 you retired from \$4,000,000 to \$6,000,000. What would be the ratio? Would you say it would be 1 per cent?

Mr. FAIRWEATHER: I would say it would be somewhere between perhaps 1¼ and 2 per cent of the depreciable portion.

Mr. VIEN: I am not talking of that.

Mr. FAIRWEATHER: I know, sir. The depreciation does not apply on the total cost; it applies on the total cost less salvage. Now you see salvage runs about 10 per cent.

Mr. VIEN: You generally figure out your depreciation on the basis of your investment and then you deduct from that depreciation whatever salvage there is.

Mr. FAIRWEATHER: That is not the way the railroads do it. In the railway depreciation accounting as set out by the Interstate Commerce Commission—

Mr. VIEN: I shall be glad to hear you on that.

Mr. FAIRWEATHER: You determine the depreciable portion as near as you can on your value. For instance, if you had a car, for simplicity, that had cost \$1,000, if it had an anticipated salvage value of \$100 it would allow you a depreciation of \$900, you see.

Mr. VIEN: I see that.

Mr. FAIRWEATHER: Now, that is the way it was done. It was in that sense I spoke of it.

Mr. VIEN: From the depreciable value, what would that represent?

Mr. FAIRWEATHER: You mean in total, sir?

Mr. VIEN: No, in percentage.

Mr. FAIRWEATHER: Well, I would say between $1\frac{1}{4}$ to 2 per cent.

Mr. VIEN: Would you say 1 or 2 per cent is a reasonable ratio for depreciation?

Mr. FAIRWEATHER: Not for depreciation, no sir.

Mr. VIEN: But you say retirements and depreciation are synonymous.

Mr. FAIRWEATHER: I said over a period of years, sir, if you went along further in the cycle. That is where we are in the cycle of retirements. The retirements are less than the depreciation. But if you look at it from another point, say ten years from now, the retirements would be greater than the depreciation, and over the whole period they would be equal.

Mr. VIEN: I should like to follow that, but I do not understand it. I understand if you take the depreciation which you would in normal times, and on a reasonable basis of 5 or 6 per cent add on a further 1 or 2 per cent; but I cannot understand that over a period of years depreciation and retirement would be on the same basis.

Mr. FAIRWEATHER: Well sir, it arises largely out of the difference in the size of the units and the difference in the price levels. It is not on my own authority I am making this statement. I would not perhaps expect you to accept it on my authority.

Mr. VIEN: Would you quote the authority?

Mr. FAIRWEATHER: I quoted one thing yesterday, the Railway Research Service of England, where they state quite definitely "It will be appreciated that the final result of those two systems of accounting is precisely similar." That is also borne out by the appearance before the Interstate Commerce Commission. When they came to the question as to whether or not the railways were to establish depreciation accounting for the property, the railways pointed out, and I may say also the Bell Telephone Company, because they were concerned, that over a period of time depreciation accounting and retirement accounting as practised by railways resulted in exactly the same figures.

Mr. VIEN: Where did the Bell Telephone company say so?

Mr. FAIRWEATHER: It is in their appearance before the Interstate Commerce Commission because they are also under their authority. For instance, the Bell Telephone company put in representations to the commission that depreciation accounting was entirely wrong as practised by them. Of course, the whole thing is very complicated.

Mr. VIEN: I am surprised, because they stated differently before the Board of Railway Commissioners in Canada. They insisted upon having depreciation and they asked for it by as much as 6 per cent, and they were very much incensed when the depreciation ratio was brought down to 4 and a fraction, 4.5 per cent, if I am not mistaken. It would seem to me that rolling stock of a railroad depreciates more rapidly than telephone equipment, and if it was necessary to have a 4.5 depreciation ratio on telephone equipment, it seems to me that the ratio should be at least that or more on railway equipment.

Mr. HEAPS: This discussion is very interesting.

The CHAIRMAN: It is more or less academic.

Mr. VIEN: I don't know. I am trying to find out if the report is a true picture of the situation. How can we find that out? The statement was made yesterday, and it involves millions of dollars. I was very much interested, Mr. Chairman, in seeing to it that the estimates were disposed of. We did that

yesterday, with a view not to stop procedure in the House of Commons, nor to deprive the railway system of the necessary money to carry on efficiently. Now that we have disposed of that, are we going to go fully into the financial statement of the Canadian National Railways to see whether some corrections should be made here and there? What I have in mind is to ascertain whether the financial report of the C.N.R. is a true picture of the situation. I asked Mr. Fairweather yesterday whether retirements and repreciation were synonomous, and he said over a period of 10 or 15 years they were equivalent.

Mr. FAIRWEATHER: I think I said 30 or 40 years.

Mr. VIEN: Well in 30 or 40 years I would imagine much of your rolling stock should be depreciated completely.

Mr. FAIRWEATHER: That is so, sir.

Mr. VIEN: You are not depreciating it on that ratio.

Mr. FAIRWEATHER: No, sir; but you see because it would be completely depreciated it would be retired, and because it would be retired it would be charged to operations, so that over a considerable period of time, 30 or 40 years, I am perfectly sure you could not find any difference between depreciation and retirement.

Mr. KINLEY: How do you dispose of repairs?

Mr. HEAPS: They are retired.

Mr. FAIRWEATHER: When a piece of equipment is worn out and can no longer be repaired, we charge it to operating expenses, charge the value.

Mr. HEAPS: You junk it.

Mr. FAIRWEATHER: Yes, we scrap it.

Mr. HEAPS: How do you sell it?

Mr. FAIRWEATHER: We—

Mr. HEAPS: Do you sell it by tender?

Mr. FAIRWEATHER: We salvage what we can, and use it again. What we cannot use we sell as scrap to steel companies.

Mr. HEAPS: By tender?

Mr. FAIRWEATHER: Yes, certainly. The purchasing department sells it. They offer it in the market to the highest bidder.

Mr. HEAPS: Is it a fact, according to your statement yesterday, that your method of accounting is similar to the one followed by railways in Great Britain?

Mr. FAIRWEATHER: No, not in Great Britain. They practise a form of depreciation accounting, but it is followed by all railways on this continent.

Mr. HEAPS: How about the Canadian Pacific railway?

Mr. FAIRWEATHER: The Canadian Pacific follow our practice, or we follow their practice.

Mr. KINLEY: It is actual instead of book depreciation?

Mr. FAIRWEATHER: There is one point that perhaps has not been developed. Depreciation in no sense affects the cash. Whether you depreciate or whether you do not depreciate, you do not affect the cash.

Mr. KINLEY: You do in this case.

Mr. FAIRWEATHER: No.

Mr. KINLEY: You get something.

Mr. FAIRWEATHER: In retirement accounting, yes. But sir, we show it in our accounts when we come to parliament for cash deficit. It is changed, because we do not get it in cash. For instance, if we had estimated a profit of \$5,000,000, that depreciation charge would not be reflected in our accounts.

We would have to take it out from our accounts when we presented them to parliament, otherwise we would have \$5,000,000 from capital.

Mr. VIEN: Would it not be the same if you had applied it to depreciation account?

Some hon. MEMBERS: No.

Mr. VIEN: I am sorry, I am asking Mr. Fairweather. I may be more stupid than some, but I am trying to find that out for my own information. That is why I am asking this question. If the chairman thinks I am out of order—

The CHAIRMAN: I do not, but I should like to call your attention to the memorandum which was supplied by the railway company.

Mr. VIEN: I read it, and it was because I did not understand it fully that I asked the question. I could not understand that depreciation and retirements were the same. I could not understand it for this reason. If you had depreciation the proper ratio would be at least 4·5 per cent, and if you had a 2 per cent retirement I cannot understand how the 2 per cent retirement could be equivalent to the 4·5 or 6 per cent depreciation account. Now Mr. Fairweather has just stated that it does not affect the cash. It seems to me if you build up a depreciation account and you put in that account 4 or 5 per cent of your cash investment in your rolling stock as a proper depreciation, the depreciation account can be used and is mostly used for buying new equipment; it is re-invested in the property for the purchase of new equipment and therefore that depreciation account would be reflected in your cash demands to parliament, inasmuch as you would not require so much money for your operating expenses.

Mr. FAIRWEATHER: Quite, sir. But what would you do if you had no capital expenses to apply it against? That is the position we have actually been in during the last two or three years. We have no capital expenditures to apply it against.

Mr. MORROW: In the ordinary course of business you would retain it in your treasury.

Mr. FAIRWEATHER: Yes, we would. I simply wish to point out, insofar as the cash requirements are concerned, depreciation accounting would not affect cash requirements at all. Whether it would present a clearer picture of the operations is quite another matter, and that is a matter, sir, upon which there is a great difference of opinion.

Mr. VIEN: I know.

Mr. MORROW: The American roads set up 3½ to 4 per cent on rolling stock. Now, if our investment in rolling stock is \$1,000,000,000, we would have to set up from 35 to 40 million dollars a year. On the basis that we are presently setting up, we are taking about 5 per cent over the years, which is not anything like 3½ or 4 per cent. That is the argument I have been using for the last 5 years on the Canadian National, and they have used the argument they do not operate the railroads on that basis. I do not care whether it is a railroad or any ordinary business, you have to set up proper depreciation to take care of renewals.

Mr. VIEN: That is my own understanding of accounting; I may be all wrong.

Mr. MORROW: That is true of firm accounting. Railroad accounting is not done in that way. They are doing what they are doing at the present time because in 1915 or 1916 that method of accounting was set up.

Mr. FAIRWEATHER: 1907.

Mr. MORROW: It was set up in 1907, but because it was set up in 1907, that does not make it good accounting.

Mr. VIEN: The point I was urging is this: I think the financial statement of the Canadian National Railways should be a true picture of the situation. The Canadian parliament and the Canadian people should know where they are at as regards that.

Hon. Mr. FULLERTON: We have to follow the Dominion government regulations. We are strictly following the regulations.

Mr. VIEN: Yes. But if these regulations are wrong, if they carry you into showing a wrong picture, I should like to find out in what particular respect those regulations should be changed.

Mr. HEAPS: The inference of Mr. Vien now is that we are not getting a true picture. Is he prepared to say as a member of this committee that the statement of the railway, as audited by the auditors and given to this committee, is not a true picture?

Mr. VIEN: Yes, I am prepared to say that. I am not suggesting that the figures that have been compiled in this report are not in strict conformity with the books of the company or that there has been any improper dickering with the figures. I am not suggesting that at all, but I am suggesting that the set-up of these figures is not a proper picture of the situation.

Hon. Mr. VENIOT: The system.

Mr. VIEN: The system is wrong, in my opinion. If I am wrong I should like to be corrected. I am willing to stand corrected if I am wrong, but I believe that the Canadian parliament and the Canadian people cannot understand the true situation from a report of this kind. Mr. Fairweather has very candidly said that he had built it up under the system that obtains and that he could not see any possible way of changing it. Judge Fullerton has just explained that it is governed by government regulation.

Mr. PARENT: The auditors in their report to parliament say:—

We have made a continuous audit of the National Railways for the year ended 31st December 1935 including a general but not detailed examination of accounts at all the regional centres and of the audit conducted by the railway's internal audit staff. The accounts of the railway are kept in accordance with the rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines in the United States.

Hon. Mr. FULLERTON: They cannot do anything else.

Mr. PARENT: If a change is to be made it has to be made by the competent authority.

Mr. VIEN: Yes, I am coming to that. I should like to know where these regulations are.

Mr. PARENT: You have sat on the board of railway commissioners; you should know.

Mr. VIEN: Even an ex-board of railway commissioner may have his limitations and short-comings.

Mr. HEAPS: Oh, you have no short-comings.

Mr. VIEN: Yes, a number of them.

Mr. PARENT: You had a good reputation as a commissioner.

Mr. VIEN: I should like to know where these regulations are, and to what body of regulations the chairman of the board is now referring.

Hon. Mr. VENIOT: If these regulations come from the government—

Hon. Mr. FULLERTON: As a matter of fact the railway board send out a form which we fill in.

Mr. VIEN: It is news to me to hear that the railway board has ever passed an order directing in what way the accounting of the railway system should be carried on, and how depreciation should be regarded.

Hon. Mr. FULLERTON: Yes, that is true.

Hon. Mr. HOWE: In order to pour oil on the troubled water, let me give you my opinion. In 1917, I think it was, the Department of Railways issued a form. It was sent out, I think, with a letter of the minister. I do not know how authentic it is, or anything else, but I think that is the accounting system followed by the railway. The point at issue here, I think, is whether the allowances for retirement equipment are sufficient. Is not that the whole thing?

Mr. VIEN: Or whether proper depreciation should be built up.

Hon. Mr. HOWE: They use retirement accounting, which is an alternative to depreciation accounting. In other words, instead of writing off so much depreciation and putting it in the bank, they set aside a fund to replace the equipment as it is required. It is much the same thing. Now, the amount of that fund is in question. I do not think that is a matter of regulation. I do not think it is anyone's regulation. You will notice the amount has gradually been increasing over the years. The point that Mr. Vien is raising is whether the retirement fund in this year, \$6,000,000, is sufficient.: Is not that it?

Mr. VIEN: It would come to that.

Hon. Mr. HOWE: There is no question the railways are keeping their accounts in accordance with the instructions issued by the Minister of Railways in 1916 or 1917.

Mr. VIEN: In reality there are two points I should like to challenge. First, is a statement that retirements and depreciation are similar or equivalent. I challenge that. Secondly, I say that the retirement ratio as you have just mentioned, is shown on page 11 of the report, and I say that is inadequate. These are the two points. Mr. Morrow has pointed out that under the system in effect in the United States, $3\frac{1}{2}$ per cent would be set up for depreciation of the rolling stock. According to Mr. Fairweather it hardly comes up to 2 per cent; therefore I cannot reconcile the statement that a retirement under 2 per cent a year is equivalent to a depreciation of $3\frac{1}{2}$ per cent a year.

Hon. Mr. HOWE: I do not think anyone has said that. I think they said over a period of years retirement accounting and depreciation accounting come pretty close to the same figure.

Hon. Mr. VENIOT: May I be permitted to say a word? If it is a fact that this system of accounting is adopted by the railroads on the instructions of the regulations adopted by the government why should we spend so much time with the railway board here in discussing it? If this committee, after we are through with the railway officials, feel from the explanations given that the system of accounting is not an adequate one and does not give a true picture, then let the committee deal with the point and say what recommendations they should make to the government, not to the railway officials. They have nothing at all to do with it. They have to follow the instructions, and it is up to us, after we are through with the railway officials in this committee, to find out what recommendations in that respect we should make to the government of Canada.

Mr. VIEN: We have heard that there are regulations. I should like a copy of the regulations to be filed with the committee, Mr. Chairman.

Hon. Mr. HOWE: We will do that.

Mr. HEAPS: To bring the point to a head I should like to ask the board of trustees this question: In your operation of the railways do you consider the present retirement fund and depreciation fund sufficient to take care of the replacements?

Mr. MORROW: The fact that we retired about \$25,000,000 worth of obsolete equipment last year and had not set up any depreciation to take care of that, had not charged them to profit and loss, is the best indication that I can give you that ample depreciation has not been set up.

Mr. HEAPS: Then in your opinion as a commissioner the depreciation should be larger than it is at the present time?

Mr. MORROW: Yes.

Mr. HEAPS: Do the other commissioners agree with that statement, Mr. Morrow?

Mr. LABELLE: If we had sufficient earnings to set up such a depreciation, and if the regulations permit us, are two different things.

The CHAIRMAN: Is it not a fact that these funds would have to be obtained from the government? It would not be possible for the railway to set them up from its income; therefore it is a question for parliament. I am rather glad that Mr. Vien brought this to the attention of the committee, and I am going to ask the department to file a copy of its regulations with the committee. The minister is present here and has heard all the arguments on the case. He is familiar with the situation, and now it is a question of government policy.

Mr. HEAPS: No, I do not think it is a question of government policy at all. It is a question of complying with the regulations.

Mr. VIEN: The minister has said that there was no direction from the department or from the government directing the Canadian National railway to set up this ratio or any other ratio for retirement or depreciation. Did I understand you rightly?

Hon. Mr. HOWE: That is correct, as I understand it.

The CHAIRMAN: On the other hand, the minister has just stated also that if a depreciation fund is to be established, the money will have to be voted by parliament.

Mr. VIEN: Undoubtedly.

Hon. Mr. FULLERTON: The regulations are here, and we followed the regulations strictly. We must follow the regulations; we cannot do anything else.

Mr. VIEN: Can you give me from that book the regulations which govern depreciation or retirement?

Hon. Mr. FULLERTON: Yes.

Mr. MAYBANK: While this is being looked up, I should like to ask a question. Mr. Morrow has made a statement about retiring a certain amount of obsolete equipment, and he said having no fund it was simply charged to profit and loss. If we had had a fund that would not have been done. Now, then how long would it have taken, had percentages been allowed in the past, to build up the depreciation fund that would have permitted you to charge it to the depreciation fund, rather than profit and loss?

Mr. MORROW: Exactly the basis of the life of the equipment.

Mr. MAYBANK: That would be about—

Mr. MORROW: Say the life of the equipment is 20 years.

Mr. MAYBANK: So that over the last 20 years what we would have had to do in order to, in this year of our Lord, get ourselves in the position where we would like to be, would be to put money into the depreciation fund.

Mr. MORROW: Yes.

Mr. MAYBANK: We were losing money, generally, so if we had been putting it into the depreciation fund, the final figure in the railway would have shown that we had lost a little more.

Mr. MORROW: Yes.

Mr. MAYBANK: The place where we would have got the money would be the government.

Mr. MORROW: Yes.

Mr. MAYBANK: We would have been getting it for several years.

Mr. MORROW: Yes.

Mr. MAYBANK: Instead of getting it all this year.

Mr. MORROW: No.

Mr. MAYBANK: Or last year.

Mr. MORROW: It would have been spread over.

Mr. MAYBANK: We would have been getting a certain amount from the government every year to put into the depreciation fund.

Mr. MORROW: You would have had the equipment when you would have been setting it up. Your operating loss would have been greater to the extent of the difference between the depreciation and the present set-up for retirement.

Mr. MAYBANK: If you take it that we had the actual money we would have been getting it out of the treasury. If you take it we were only writing it down in the book, we would have been really writing down an asset, which, if we were to actually get it, in our fingers, we would have to get it from the government. Is not that what it would have amounted to?

Mr. MORROW: It is the same thing.

Mr. VIEN: Your annual report would have been a true picture of the situation. I am thinking of the actual operation of the railway.

Mr. MAYBANK: If we could look back 20 years and try to get to any extent this truer picture that Mr. Vien refers to—I am not disputing it, I am only trying to find out, we would find we have been following a method which in the last 20 years would have made our deficit a little greater.

Mr. MORROW: Our operating deficit would have been.

Mr. MAYBANK: Yes, the operating deficits. And our depreciation account would be a little greater.

Mr. MORROW: Yes. You do not lose any money when you set up depreciation, but you do get your actual operations.

Mr. McLARTY: Do I understand that the American roads set up a depreciation to a real extent?

Mr. MORROW: I would say 20 or 25 railroads that I know of set up depreciation of over 4 per cent of their rolling stock.

Mr. VIEN: In ordinary business if you do not set up a proper depreciation fund, you think that you have made a profit when you have actually had a loss?

Mr. MORROW: Right.

Mr. VIEN: Occasionally.

Mr. MORROW: Suppose we built a plant costing a million dollars along with equipment. You set up depreciation on the basis of 5 per cent, $7\frac{1}{2}$ per cent for equipment, and $2\frac{1}{2}$ per cent for building. Over that period you set up enough to amortize the plant and equipment in the 20 years, so that at the end of the 20 years the plant and equipment are free. At the end of 20 years most businesses have to be remodelled, and you have money in your treasury to build a new plant. If you did not do that at the end of 20 years, without any depreciation, what have you to do? You have to find new capital.

The CHAIRMAN: Is not this a fact, Mr. Morrow: This question has been called to the attention of the government by committees time and again, but they have not decided to set up a depreciation account because they have to vote the money. There the responsibility lies. It does not lie with the board of trustees nor with the railway officials. It lies with you, Mr. Minister. That is the whole thing.

Hon. Mr. HOWE: I think I can say that everyone realizes that this retirement fund for equipment is not large enough. You noticed the management themselves have been gradually increasing it from year to year. It is very difficult to take any radical step, for it simply means that much more charge against the government treasury. That is one of the things. When we are able to bring the road back to better conditions we will correct this. I think the management will agree to that; but I doubt if the committee can take any action now that will improve the situation very much.

Mr. HEAPS: Would not that apply to the other railways in Canada?

Hon. Mr. HOWE: Yes, I think so. I think our retirement fund is larger than the competitive road. That is my impression.

Mr. HEAPS: If a larger fund is found to be necessary on one railway and we have to make a request to the Board of Railway Commissioners to put it into legal effect, it would affect all railways in this country.

Hon. Mr. HOWE: Strangely enough, the argument is usually the other way in hearings before the Board of Railway Commissioners.

The CHAIRMAN: Is the committee satisfied that we have called the attention of the minister and of the government to this question?

Mr. VIEN: I should like to ask the chairman of the trustees if he has that section or regulation he referred to.

Mr. COOPER: You were speaking on the question of a regulating authority.

Mr. VIEN: Yes. I should like to see it.

Mr. COOPER: It is in the book entitled "Classification of operating revenues and operating expenses of steam roads."

Mr. VIEN: With amendments to date?

Mr. COOPER: I do not think there were any amendments to this.

Mr. VIEN: What is the page number?

Mr. COOPER: It will be found on page 62, under the classification which deals with depreciation of locomotives. There are a number of other accounts dealing with freight cars and passenger cars.

Mr. VIEN: Page 62 and following?

Mr. COOPER: Yes. I might say the accounting principles here were uniform with those prescribed by the Interstate Commerce Commission and in the Interstate Commerce Commission classification there is an account, No. 309, making provision for the depreciation on steam locomotives. Now, the Canadian classification takes that account No. 309, steam locomotive depreciation (eliminated). It reads in the Canadian classification as a departure from the I.C.C., the word "elimination" appears, and it goes on to provide in a new account, which is not in the Interstate Commerce Commission accounting for the loss on the equipment as retired.

Mr. VIEN: What is the other book you are referring to?

Mr. COOPER: This is the Interstate Commerce Commission statement.

Mr. VIEN: Can you leave a copy with the committee?

Mr. COOPER: Yes.

Mr. VIEN: What are the sections therein to which you refer?

Mr. COOPER: I might say, Mr. Vien, that this is an issue of January 31, 1936, which includes some revisions which went into effect in 1935, and to that extent it is not a real companion to the Canadian classification. I can file this.

Mr. HEAPS: Is there much difference in the two, may I ask?

Mr. COOPER: Between the old and the new, you mean?

Mr. HEAPS: Yes.

Mr. COOPER: No, not a great deal of difference.

Mr. VIEN: What sections of the I.C.C. book would you refer me to?

Mr. COOPER: I would refer you to page 117.

Mr. VIEN: And following?

Mr. COOPER: Yes.

The CHAIRMAN: Would it be satisfactory if the book is placed with the clerk of the committee to be at the disposal of every member of the committee?

Mr. VIEN: Yes.

Mr. YOUNG: I should like to ask Mr. Morrow one question following out his argument. Would it be a proper conclusion to come to, in your judgment, the management of the C.N.R. had not yearly been setting up a proper retirement fund?

Mr. MORROW: On a strictly accounting basis with any other business, other than railways, the amount set up is not adequate.

Mr. HEAPS: How does our accounting system compare with the accounting system of other railways both here and in the United States?

Mr. YOUNG: Before we get off this point, I think we should have the opinion of the other members of the board to compare with the opinion of the one member.

Mr. LABELLE: Personally I am satisfied to follow the rules and regulations in force just now. We have discussed that matter at our board meetings very, very frequently. Then the question has been pointed out to us that we have a profit and loss account, which is a deficit and always has been a deficit. We may charge depreciation but we will have to take it out of our earnings, and we would have to go to the government and ask for a little more money. Now, we have built up several funds, an insurance fund, for example, for some years. We have set aside an amount to build up an insurance fund, which actually is a large fund. On the Merchant Marine and the West Indies service we have a deficit, and we have been taking out of that deficit fund, if you like, a certain amount to build up that fund. That is the situation.

Mr. YOUNG: In other words, what you have done is in your judgment, all you could do, and you think you have gone far enough with it even if you have not a large enough retirement fund to show for it.

Mr. LABELLE: As the minister pointed out, and as the chairman pointed out a moment ago, I think the auditors of the government have always drawn the attention of the committee to that point.

Mr. VIEN: You said that last year \$25,000,000 of equipment had been retired. Where was that charged or shown?

Hon. Mr. FULLERTON: It was charged to profit and loss.

Mr. VIEN: Was it reflected in the operating account?

Hon. Mr. FULLERTON: No. This was obsolete equipment, and there was a special direction made that it could be charged up to profit and loss. We follow the same method as that used in charging up to profit and loss account all ordinary depreciation.

Mr. MAYBANK: Where is this shown now?

Hon. Mr. FULLERTON: It is in here.

The CHAIRMAN: Shall we go on with the report? Then, we will take page 21 of the report and go into full details, instead of following that analysis. Will you refer to the report of the Canadian National Railway system, at page 21. We are going to take each account in detail.

Mr. FAIRWEATHER: Maintenance of way and structures. Shall we read the amounts or just indicate the section headings?

The CHAIRMAN: Give the headings only, and the members will follow you.

Mr. FAIRWEATHER: Superintendence, roadway maintenance, tunnels and subways—

Mr. YOUNG: On roadway maintenance we would like to ask this question—

Hon. Mr. VENIOT: On roadway maintenance may I take up this question: I would like to know under what system contracts for railway ties are let? Is it proper that when an application is made by an individual to furnish ties to the railroad—

The CHAIRMAN: Ties come a little bit further on, Mr. Veniot. If you don't mind, we would like to follow each item as we come to it. We can take that up at the appropriate time, if you don't mind.

Mr. YOUNG: Is the management, in its own opinion, keeping its maintenance up to a standard which is a proper standard?

Mr. HUNGERFORD: What is that?

Mr. YOUNG: Is the management keeping the railways up to standard which in their judgment is a proper standard?

Mr. HUNGERFORD: Yes, having regard to all the circumstances. Yes.

Mr. YOUNG: But then, the condition would not be normal, would it?

Mr. HUNGERFORD: Yes. I think that our property as a whole, I am speaking of our physical property, our fixed property as apart from rolling stock, is in better shape to-day than it has ever been.

Mr. YOUNG: I thought I had understood that you were not doing as much work on road maintenance now as you had done in years past.

Mr. HUNGERFORD: That is quite true; but, on the other hand, we were building up the condition of the track and the facilities, aiming at a standard all the way through. It was only necessary to drop that to maintenance at this time.

Mr. YOUNG: You say you are maintaining it at the standard to which you built it up?

Mr. HUNGERFORD: Yes, with this exception; so far as the main line tracks are concerned they are probably in better condition on the average to-day than they have ever been. With the decrease in the volume of branch line traffic in some cases we have deliberately lowered the standard on branch lines to the requirements of to-day. We have done that as an economy measure, and it is justified.

Mr. YOUNG: That is not true with regard to main line tracks?

Mr. HUNGERFORD: That is not true in regard to main line track, main lines have been well maintained.

Mr. YOUNG: Have you got the same number of men maintaining that road that you had, say four or five years ago?

Mr. HUNGERFORD: No, probably not; for this reason—

Mr. YOUNG: On main lines, that is?

Mr. HUNGERFORD: For the reason I just spoke of, which was that at that time we were building up the condition of the property.

Hon. Mr. VENIOT: On the question of road maintenance: I understand there is a new regulation coming into force on the 1st of June which provides that section mileages shall be 10 miles, and that that would necessitate quite a number of track men abandoning their homes in order to get in the vicinity of their work. That order is going into effect on the Caraquet railway in Gloucester county. There is a great deal of dissatisfaction about that. I am receiving a great many letters from railway track men in protest. Now, is that based on a question of economy?

Mr. HUNGERFORD: Yes, sir.

Hon. Mr. VENIOT: If you extend the mileage to 10 instead of 8, are you employing more men or less men?

Mr. HUNGERFORD: We are employing exactly the same number of men on the average, but we are employing fewer foremen. The situation has changed materially from what obtained in former years, through the introduction of the motor-propelled hand car, in the use of which you can cover perhaps twice the ground that you could when using the old type of hand-propelled hand-car. With the improvement of the property and the general betterment of the situation section gangs in many cases have got down to the point where there are not enough men in them to handle the heavy rails. We are more or less doubling the thing up. The mileage in all cases is not being doubled, but it is being substantially increased, and the gangs are being put together; so, it does not affect the total number of men employed, but it does affect the number of foremen employed for purposes of supervision.

Hon. Mr. VENIOT: For instance, in a distance of 48 miles where you now employ 6 foremen under this arrangement you will only be employing 4 or 5?

Mr. HUNGERFORD: That may be so, Mr. Veniot.

Hon. Mr. VENIOT: Is that the fact?

Mr. HUNGERFORD: Under the new conditions we do not need any more men.

Hon. Mr. VENIOT: Then, if you dispose of 2 foremen now where you had 6 before and keep the same number of track men have you a sufficient number of men to keep up your track repairs?

Mr. HUNGERFORD: Yes. The working force will be just the same, or more, because some of the foremen that were supervising men will themselves be working.

Hon. Mr. VENIOT: They would be kept on the job?

Mr. HUNGERFORD: Yes.

Hon. Mr. VENIOT: Somebody will have to be put off or demoted. A foreman will have to be demoted if he takes the place of a regular section hand, and the regular section hand will be cut off.

Mr. HUNGERFORD: Under the scheme that is being adopted and put into force down there there will be the same number of men employed.

Hon. Mr. VENIOT: Where will the economy be? Will it be in the reduction of the wages of the foreman?

Mr. HUNGERFORD: Partly in that, and partly on account of the better arrangement by reason of the doubling up of gangs, which will mean that they can be worked more efficiently.

Hon. Mr. VENIOT: Will any allowance be made to foremen or to track men who have to leave their homes and go somewhere else along the line to live in order to comply with the new regulations?

Mr. HUNGERFORD: I have no information that indicates that that is going to be necessary. It may be in some cases.

Hon. Mr. VENIOT: It will be necessary in some instances. Supposing it is found to be necessary, will any arrangement be made to compensate these men with respect to expenses and so forth?

Mr. HUNGERFORD: It will depend on the circumstances, Mr. Veniot. I do not know that that condition exists.

Hon. Mr. VENIOT: Well, it will obtain on certain sections of your railroad.

Mr. HUNGERFORD: In a great deal of railway work the employee is required to go where the company has work for him to do. I have been doing that for a number of years.

Hon. Mr. VENIOT: If he has been working for 10 years on the road and has established himself, bought property as a residence and has his children going to school in that district, and on account of this change is compelled to dispose of his property and move elsewhere, and especially to live in a district where he has not the same school accommodation for his children, what steps would the government take to protect him?

Hon. Mr. HOWE: I can perhaps speak for the government. You have mentioned the government there. The government does not "take steps" in the railway business, any more than it does in any other business. I have had to move my children from schools during the past 20 years, and so have you. Why should we worry about these cases.

Hon. Mr. VENIOT: But, it was worth your while owing to the position you occupy. So have I had to do it. It is not worth while to these poor men who are, God knows, poorly paid enough now without having other burdens imposed on top of what they have. However, I just draw this to the attention of the railway authorities, and they may perhaps consider the matter with a view to looking into it and seeing what effect it will have on these men.

The CHAIRMAN: I might supplement what Mr. Veniot has said. I have also received a number of these letters and I pass them on to the railway department; and, of course, I got the usual answer; that it could not possibly interfere with the administration of the road under the present circumstances. But I would like to know from Mr. Hungerford, in respect to these changes which he is going to make, if the approach by the individual on the eastern division should be to the railway management direct, or through their union? I understand it only applies to the eastern district.

Mr. HUNGERFORD: It only applies to the Atlantic region.

Hon. Mr. VENIOT: You say, it only applies to the Atlantic region. Why is that?

Mr. HUNGERFORD: We have been experimenting with this in a number of areas all over the system, and the practice is going to be extended as rapidly as we can do it.

Mr. ELLIOTT: Does the railway not provide living facilities for their section foremen?

Mr. HUNGERFORD: Over a large portion of the territory we do.

Mr. HOWARD: You are providing power transportation for them now, instead of the old pump-control?

Mr. HUNGERFORD: Yes, we do. We provide motor-propelled hand-cars.

Hon. Mr. VENIOT: Is that provided all over?

Mr. HUNGERFORD: Practically all over. They are coming in just as fast as we can supply them.

Hon. Mr. VENIOT: I hope it will be all over soon.

Mr. HUNGERFORD: It will be, Mr. Veniot.

Hon. Mr. VENIOT: I mean, in any section where it is not now provided.

The CHAIRMAN: May I ask if every case will be investigated specially, and if the railway intends to take into consideration the circumstances of each case, and where there is real suffering or real loss on account of this change will they see that the men are compensated?

Mr. HUNGERFORD: Well, if representations are made to the local officials who have a knowledge of the situation and all the surrounding circumstances, and if they make a recommendation, that recommendation will be considered.

The CHAIRMAN: Now, may I ask you a further question: What is the proper way for these men to bring their claims to the attention of the proper officer of the railways; is it through their unions, or by individual approach?

Mr. HUNGERFORD: The unions provide the machinery for the handling of these cases, and that is the recognized manner through which they should be dealt with.

Mr. WALSH: Where is this deliberation leading to? I have a great deal of sympathy for Mr. Hungerford as president of the Canadian National Railways, and I do not think that he should have to put up with questioning of this sort.

The CHAIRMAN: We merely seek to ascertain certain information.

Mr. WALSH: My point, Mr. Chairman, is this: This Canadian National Railway is in competition with the Canadian Pacific Railway, and if they are going to be impeded in their management here—namely, in the Atlantic region—by such petty questions as the transfer of a man here and a man there, and the whole business of the country tied up, I can't for the life of me see how we are going to reduce the deficit on the Canadian National Railway or develop it into a really successful business enterprise. Now that is the point of view I take. I have a great deal of sympathy for the men, but I also have sympathy for the railway officials who have to operate this road, and who are being very severely criticized in the press and in parliament for the huge deficit that they are creating and for which the public has to pay. Now, we here as a committee ought to be assisting the railway officials; and if anybody writes in to a member of parliament complaining that he is being moved here, or there or anywhere else, we ought immediately to write back and say, it is none of our business,—but that they should get in touch with the management of the railway, where conditions I think naturally will be rectified. In that way we will throw the onus of management onto the railways; and if the railway officials can't handle that railway effectively under that system, why then we will get railway officials who can handle it. I think we should devote ourselves to a consideration of the more serious things which go to make up the handicap under which we are labouring at the present time.

The CHAIRMAN: I am sure that we are very thankful to the hon. member (Mr. Walsh) for the lesson he has read us. I was dealing with petitions which I have received, not only from my own county but all over the region, from the unions. I thought it was a matter of duty that I should bring it up; notwithstanding anything Mr. Walsh may say.

Hon. Mr. VENIOT: If you will permit me just one moment, I wish to deprecate the idea that we are dealing with petty questions. It is all right for my hon. friend over there to style our method of proceeding this morning as "petty"—

Mr. WALSH: I did not characterize the proceedings of this morning as "petty." I characterized the questioning that is taking place at the present time as "petty."

Hon. Mr. VENIOT: He characterizes them as "petty" questions. I would say to my hon. friend that that may be all right for him, where he is not affected, and where his constituency is not affected; but this affects only the Atlantic region.

Mr. WALSH: We were told it will affect the whole country.

Hon. Mr. VENIOT: I understood Mr. Hungerford to say that at the present time it only affects the Atlantic region.

Mr. HUNGERFORD: I said that the present decision affects the Atlantic region only; but a large proportion of the balance of the system is on this basis now, and that it was being considered for the remainder.

Hon. Mr. VENIOT: That being the case, we who represent the Atlantic region have a right to know why it is applied to that region.

Mr. KINLEY: And the humblest citizen has that right too.

Hon. Mr. VENIOT: I, as a member of parliament, would take second place to nobody in my endeavours to help the railway authorities to carry on effectively, and they know that; and I do not think my hon. friend has any right when I bring up questions of this kind to style my action as "petty." I have a perfect right here today as a member of parliament to lay before this committee, and the railway authorities, the grievances of my constituency, and I intend to do it, notwithstanding what my hon. friend may style my method of doing it. I do not want to hear any more of this "petty" business from him when we feel we are justified in pleading the rights of our constituents.

Now, there is a situation which is not understood generally by people living outside of the Atlantic region. They must not forget that so far as the Atlantic region is concerned, so far as the old Intercolonial Railroad is concerned, that you are bound, gentlemen of the railway board, to carry out certain terms and agreements under the Act. You must not forget, and this committee must not forget, that the management of the Canadian National have nothing whatever to do with the development and management of the Intercolonial railway, so-called, under the British North America Act, except by the Order in Council passed in 1919 naming them directors of that road. You are not in the same category in connection with the Intercolonial up to Levis as you are on other roads owned by the Dominion of Canada. You are as a company running or administering all the other roads in Canada, but you are merely directors for administrative purposes of the Intercolonial; and under that you are bound by certain agreements with the maritime provinces, constituted and agreed to by Old Canada—Quebec and Ontario—which you have to carry out. Now, we claim that in the maritime provinces the rights and privileges granted to us and accorded to us under the British North America Act, so far as our railroads are concerned, have never been lived up to. And this is one of the methods being adopted by the directors of the Intercolonial, not by the trustees of the Canadian National Railroad. And this is what we are complaining about. We have been at the wrong end of the stick long enough, we have been suffering long enough and we do not intend to suffer any longer. And when this applies to our people all over the Atlantic region and causes them problems and difficulties which they financially cannot overcome, we claim that the directors of the Intercolonial, not the board of trustees of the Canadian National Railways, should adopt some means of remedying these difficulties, and carry it out. If you think it is right, if you think it is proper administration, carry it out. I have no objection to your making it the same as in other places, but see that these men are compensated if they have to assume a financial burden in order to comply with your regulations. Why, there is not a railway station agent shifted that the railway does not pay his transportation cost, both for his furniture and his family, from one section to another. Nothing has been done in these cases where a man is affected financially by the extra cost he has to incur with respect to the transportation of his family and property to the place where he has to work. There is nothing in the regulation which is coming into effect in the month of June that will meet that situation. I claim that it should be done, that is the only reason for my taking the matter up.

Mr. HUNGERFORD: Insofar as transportation is concerned these employees will be treated just the same as any other employee of the road.

Hon. Mr. VENIOT: Will that include his family?

Mr. HUNGERFORD: And his family, so far as that is concerned.

Hon. Mr. VENIOT: They do not know that. That is not the way they understand it down there.

Mr. HUNGERFORD: They have the means of finding out.

Hon. Mr. VENIOT: They didn't know it, any way.

Mr. HUNGEFORD: But, let me say this, that all these matters come within the administration of the region.

Hon. Mr. VENIOT: But the region informed me that they cannot do anything without the consent of central headquarters in Montreal.

The CHAIRMAN: I see it is nearly 1 o'clock. We will adjourn until we meet again on Tuesday morning at 11 o'clock.

The committee adjourned at 1 o'clock p.m. to meet again on Tuesday, May 5th, 1936, at 11 o'clock a.m.

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"Standing Order" 1936

SESSION 1936

HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

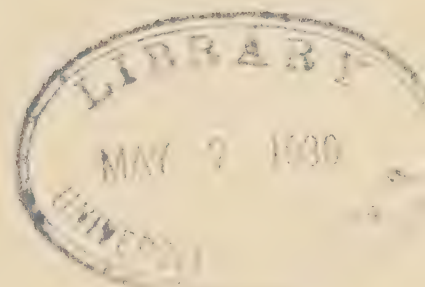
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, MAY 5, 1936



WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1936

MINUTES OF PROCEEDINGS

TUESDAY, May 5, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m. The Chairman, Sir Eugène Fiset, presided.

Members present: Messrs. Bothwell, Elliott (*Kindersley*), Ferland, Gray, Hanson, Heaps, Howard, Howe, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh, Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. F. K. Morrow, Trustee, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Hon. Mr. Veniot requested that a statement made by him on April 30, contained on page 41, line 42 of the evidence be corrected, viz.,—

“The C.P.R. furnishes better mail cars and better conveniences than does the C.N.R.”

which should read,—

“The C.N.R. furnishes better mail cars and better conveniences than does the C.P.R.”

Ordered,—That the above correction be made.

Mr. Heaps referred to a question he had asked in the House with respect to wages paid to employees of the Chateau Laurier, Ottawa. The Minister of Railways having made a statement in reply to Mr. Heaps, the latter agreed to discuss the matter confidentially with the minister.

The committee resumed consideration of the annual report of the Canadian National Railway System, the officials of the railway being examined on the following items:—

Maintenance of ways and structures expenses,
Maintenance of equipment expenses,
Traffic expenses,
Transportation expenses.

At 1 o'clock the committee adjourned until 8 p.m. this day.

EVENING SITTING

The committee resumed at 8 p.m.

It was agreed to give further consideration to the “Profit and Loss Statement” appearing on page 18 of the annual report, Mr. Cooper being requested to explain in details the items contained therein.

The following items of the annual report were also considered:—

Miscellaneous operating expenses,

General expenses,

Loans from Dominion of Canada,

Funded debt—principal and interest,

Receipts and expenditures (1923-1935),

Additions and betterments less retirements.

The committee adjourned until Wednesday, May 6, at 4 p.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 231,

MAY 5, 1936.

The select standing committee on Railways and Shipping met at 11 o'clock a.m., Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Gentlemen, let us commence our proceedings.

Hon. Mr. VENIOT: Before we proceed with the further consideration of the railway report I would like to bring to the attention of the committee an error in my remarks which appears at page 41 of the printed proceedings. I am reported as having said: "The C.P.R. furnishes better mail cars and better conveniences than does the C.N.R." What I said was the very reverse, and I would like to have that correction made: what I did say was, "the C.N.R. furnishes better mail cars and better conveniences than does the C.P.R."

Mr. HEAPS: Mr. Chairman, there is one matter I would like to take up while the minister is here. Last Thursday he answered a question of mine in the House of Commons in reference to wages paid at the Chateau Laurier. At that time the minister said he could not give the committee information because it was not in the public interest to do so. Now, I feel that a question of that character dealing with wages and conditions of work among the employees in any section of the operation of the Canadian National Railways should, at least, come under the consideration either of the house or of this committee. I think we have just as much right to know the conditions of the employees of the hotels as we have of the conditions of the employees of the railways. Now, I know the facts in regard to conditions in the hotels. I have them first hand from those who are there, and it is talked about publicly in the city of Ottawa. I think the facts cannot be hidden by the minister by saying that he cannot give the information in the public interest. Somehow or other, the conditions in the Chateau Laurier are not what they should be, and it is a known fact that some of the employees working in the Chateau Laurier have been compelled to accept relief. Now, if such is the case, I think it is well that the facts be looked into or be aired on the floor of the house or before this committee. I would far sooner say nothing about the situation if I had the assurance of the minister that these things would be rectified without any delay. I do not think, on the other hand, that information requested by any member of this house should be refused as it was refused in the house on Thursday last.

Hon. Mr. HOWE: Mr. Chairman, I might say that officers of the Department of Labour went to the hotel and examined the situation, and I also took it up with the manager of the hotel to make sure there was nothing there concealed that ought to be exposed. The reason I made the statement to which Mr. Heaps refers is, of course, that it has been the policy for the last fifteen years to refuse to give details of the operation of the Canadian National Railways. The Canadian National Railways is a corporation that is operated apart from the government service, and we feel that it should not be placed under any handicaps in a competitive way by investigating facts about that operation which we would not expose, for instance, in connection with the Canadian Pacific Railway or any other private corporation. It is simply a matter of protecting the business of the company. Now, if my friend, Mr. Heaps, knows of any regulation of the Ontario Fair Wage Board that is being violated, or anything of that sort, it would be the duty of this committee to examine it; but I am told

that the case in question was a case of charity where people came to the hotel—one couple—and claimed that they were being evicted from their home, were starving and one thing and another and, as a matter of charity they were given temporary work; and I believe all these complaints have emanated from them. I am told that.

If my friend has any real complaint and can bring satisfactory cases I think they can be examined into, but I do not know that the entire operation of the hotel should be put in the public press—hotel wages differ in some respects from other wages in that there are gratuities paid; for instance, the bell boys receive a large income and theirs is a job that is highly sought because of the gratuities, and the waiters are in the same position—and putting the hotel wage scale before the public that does not understand the business might be misleading and unnecessarily damaging to the hotel. However, I am assured by the management that the wages paid at the Chateau are equal to the wages paid in any hotel in the Canadian National system and that they are equal to, if not better than the wages paid in any competing hotel in Canada.

Mr. HEAPS: The minister may be quite right in some of the assertions he has just made, but in the first place I am correct in stating that the vast majority of the hotel assistants do not come under the Fair Wage Act—the female help may, but I do not think the male help does, and it is the male help particularly that I am thinking of now. I do not want to give undue publicity to this thing and I do not want to state any of the facts I have in my possession—that is not the purpose in view—the purpose in view is to rectify conditions. I know some of the conditions that prevail there. I am going to suggest to the minister that some time when he is not so busy as he has been in the past few days I will take up the matter with him personally in the hope of rectifying the conditions that prevail at the Chateau, and I think, perhaps, by that means we may do more than we could do by discussing the matter across the table. If the minister is satisfied with that course, I am quite prepared to discuss it with him upon the first opportunity that may be convenient to both of us.

Hon. Mr. HOWE: I shall be glad to discuss this matter with the honourable gentleman and to look into any matters that he cares to ask me to look into.

Mr. WALSH: Might I ask the indulgence of the committee for one moment. As you know, I am a new member of parliament and I am new to committee work, and I am trying to give careful study to the annual report and these other reports and figures that we have had placed before us. In making that complete study and in compiling certain facts and figures there are certain questions I would like to have answered, and to do so I might have to go back to other items. Would I be in order?

The CHAIRMAN: Certainly. As long as we consider each item as it comes up you may ask your questions when it comes in the proper item.

Now, let us proceed with the report. Where shall we commence, Mr. Fairweather?

Mr. FAIRWEATHER: Ties. Page 21. Maintenance of Way and Structures Expenses.

Hon. Mr. VENIOT: On the question of ties, I would like to know how the contracts are distributed or given out.

Hon. Mr. FULLERTON: Mr. Vaughan is here; he has full charge of that matter, and he can give any information you desire.

Mr. VAUGHAN: I understand that the question asked is how we distribute our tie contracts; is that correct? We get each year perhaps 3,000 or 4,000 applications for tie contracts. We distribute that business among those whom

we consider in a position to fill their contracts and give us ties such as we desire when we want them. These ties come from lumber mills, some from lumber dealers, some from store keepers—to whom the settlers deliver their ties in return for supplies—and some direct from settlers. These contracts are placed in the way that we consider to be in the best interests of the railway.

Hon. Mr. VENIOT: On what information do you base your opinion?

Mr. VAUGHAN: We have a complete record of everybody who sells ties. We know their ability to deliver ties, whether they are legitimately in the tie business, or simply trying to get a tie contract which they are not entitled to.

Mr. HEAPS: Is the price fixed by the railway, or is it competitive?

Mr. VAUGHAN: The same price is fixed by the railway for everybody in the same district.

Mr. HEAPS: May I ask if the two railways fix the same price?

Mr. VAUGHAN: The railways agree upon a price we will pay for ties in a district. I think both the railways pay approximately the same price.

Hon. Mr. VENIOT: Is there at the present time, or has there ever been since the depression took place, a clause in your contract whereby it is stipulated that the contractor shall pay to the farmer or colonizer so much?

Mr. VAUGHAN: There is a clause in all contracts which says that contractors shall not exact more than 5 cents from a settler, or anybody else.

Hon. Mr. VENIOT: The profit shall not be more than 5 cents. If his contract was 50 cents a tie, we will say, he then would have to pay 45 cents to the settler?

Mr. VAUGHAN: That is what he ought to pay to the settler.

Hon. Mr. VENIOT: Have you ever looked into it to see if that was carried out?

Mr. VAUGHAN: We have looked into it as far as we can. Of course, we have a great many contracts. We have between five and six hundred contracts and, of course, we cannot police them all but wherever a contract is made and it is found that a contractor, store keeper or anybody else is not treating the man who supplies the ties fairly, we immediately investigate the matter and correct any injustices. Of course, we have no opportunity of dealing with these cases unless they are brought to our attention.

Hon. Mr. VENIOT: You said a little while ago that contracts were given out to people whom you considered reliable to be able to furnish the amount of their contract—to fill the amount of their contract—generally lumbermen?

Mr. VAUGHAN: Yes.

Hon. Mr. VENIOT: Are you aware that contracts have been given to haberdashers and proprietors of pool rooms and so forth who farm out to parties who are buying from the settlers and making more than a 5 cent profit?

Mr. VAUGHAN: No. I am not aware of that. If you have any such instances I would like to have them.

Hon. Mr. VENIOT: I am going to give you them.

Mr. VAUGHAN: I know we have had a great many applications from people whom we consider are not legitimately in the tie business, and we have absolutely refused to give them a contract. I would be surprised to learn about these cases; if there are such cases, we should certainly be glad to know of them.

Hon. Mr. VENIOT: I may say to you in 1933 and 1934, 1933 especially, a large number of small tie contracts were given out to hardware merchants in certain counties—I am talking of the Maritime provinces—haberdasheries, pool room proprietors, etc. There was a contract for 3,000 ties given to a pool room proprietor in the county of Northumberland, New Brunswick; 3,000 ties given

to a haberdasher at Chatham, New Brunswick, and they farmed them out and made their profit of 5 cents a tie. The party to whom they farmed out the contract would most certainly pay those settlers a good deal less than what he should have been paid. Could not your inspectors be instructed to inquire into these matters when contracts are given out to such men as haberdashers and pool room proprietors, etc.?

Mr. VAUGHAN: I would say in response to that that a great many representations have been made to us, particularly on account of the unemployment situation, and people have been drawn to our attention whom it was said, were in a position to give employment or would engage a certain number of men. Now, there may have been some of these cases, but I do not think you will find any of these cases in existence at the present time, because wherever we found such a case we declined to give the party another contract.

Hon. Mr. VENIOT: They do exist at the present time.

Mr. VAUGHAN: Well if any exist at the present time I should be glad to know of them. We have no knowledge of them.

Hon. Mr. VENIOT: Have you a list of the contracts with you?

Mr. VAUGHAN: Yes, I think I have.

Hon. Mr. VENIOT: What contracts have you given in the county of Gloucester this year?

Mr. VAUGHAN: I have not got them divided up by counties. We have 88 contracts in the province of New Brunswick.

Hon. Mr. VENIOT: Eighty-eight?

Mr. VAUGHAN: Yes.

Hon. Mr. VENIOT: Are you sure they were given under such conditions that would best help unemployment? Have you looked into that matter?

Mr. VAUGHAN: So far as we could we have made an investigation of each case. Our general tie and timber department and our Moncton office have made investigations into the reliability of each person, who has got a contract, as to their facilities for filling a contract, and as to whether or not they were legitimately in the tie business.

Hon. Mr. VENIOT: Did you get any information in regard to the town of Bathurst and the village of Tracadie?

Mr. VAUGHAN: I have not got all the details of them; I don't know all the contractors.

Hon. Mr. VENIOT: Are you aware—if you are not I am going to make you aware now, and I want you to look into it—of the conditions prevailing. Have you two contractors down there by the name of Frank Sisk and John Coughlan, neither one of whom own an inch of crown land and are exploiting the settlers.

Mr. VAUGHAN: What is the other name besides Sisk?

Hon. Mr. VENIOT: John Coughlan. And notwithstanding that your attention was drawn to it, they still continued to receive a contract this year and have been receiving them for two or three years.

Mr. VAUGHAN: I do not see any such name as Coughlan on our list at all. He apparently has not a contract this year. Frank Sisk has a contract.

Hon. Mr. VENIOT: Coughlan may be doing it under the name of somebody else now.

Mr. VAUGHAN: He has not got a contract from us. So far as Frank Sisk goes, I will get some information.

Hon. Mr. VENIOT: Frank Sisk does not own one inch of crown lands.

Mr. VAUGHAN: Plenty of people have contracts who do not own any crown lands.

Hon. Mr. VENIOT: I know, but when names are represented to the railway of people who have crown lands, and it is pointed out that the giving of a contract, not political at all but purely on the basis of helping out unemployment, would be of great assistance, and the reply comes back "You cannot give this man a contract because he has been a barber," I should like to know the reason for a distinction there and no distinction made in regard to the haberdasher.

Mr. VAUGHAN: Well, I have given the reason. We try to weed out all the applications from people who represent they should get a contract on account of unemployment. I doubt if any one has a tie contract at present who is not entitled to it and whom we find are not entitled to a contract.

Hon. Mr. VENIOT: In this particular case the gentleman in question did not make any representation to the railway authorities. I made the representations and I gave my word of honour that he had ten miles of crown lands, and a portable saw mill. While it was true he had been a barber in years gone by, he was now a building contractor and a lumberman, and it was pointed out where the section of crown lands was and where he was to establish his mill would give employment to about 25 or 30 unemployed who were badly in need of it and who were on relief. The reply came back that it had been reported to your department that this man was a barber and that was one of the reasons they were not satisfied to give him the contract. However you give a contract to Frank Sisk and other fellows who do not own a foot of crown lands. If you look up your records you will find my letter.

Mr. VAUGHAN: I have seen your letter, Mr. Veniot. In the first place, the information which we got from Moncton was that this man—

Hon. Mr. VENIOT: You had better information than you could get from Moncton. You had it from me, right on the spot, who knew everything about it.

Mr. VAUGHAN: We cannot give everybody a contract in the first place.

Hon. Mr. VENIOT: I agree with you perfectly.

Mr. VAUGHAN: As I say, we got 4,000 applicants for tie contracts, and apart altogether from the merits of this case, if I recall when you wrote about this man, the tie contracts were all let.

Hon. Mr. VENIOT: Not at all.

Mr. VAUGHAN: Your letter came along in November; our contracts are usually let earlier.

Hon. Mr. VENIOT: Yes; but right after I had written contracts were given down in Tracadie to W. S. Logie company. They own no crown lands.

Mr. VAUGHAN: Logie has been supplying ties to the railway for perhaps 30 or 40 years; they are very reliable people.

Hon. Mr. VENIOT: In that case they have no right to be treated more fairly than any other body.

Mr. VAUGHAN: Anybody who gives traffic to the railway and is in the tie business, has a right to get some preference from the railway, I submit.

Hon. Mr. VENIOT: I submit they should not.

Mr. VAUGHAN: We have to look after our own interests. A good many tie contractors have a lumber mill down there.

Hon. Mr. VENIOT: Where have they got a lumber mill?

Mr. VAUGHAN: I am not talking about them, but a good many of these contractors are in the lumber business, and as a result of giving these tie contracts, we get a substantial revenue from earnings on the side cut from the ties.

Hon. Mr. VENIOT: W. S. Logie got a contract and farmed it out to a man who did not have a mill but applied for a contract and could not get it.

Mr. VAUGHAN: I think you will admit that Logie and company are in the tie business and have been for 50 years.

Hon. Mr. VENIOT: That is all right; Logie and company are friends of mine. I am not criticizing Logie and company, I am criticizing the way contracts are given out.

Mr. VAUGHAN: Well, I do not see that we can do very much more than investigate each individual case as we do. I do not know about Sisk, the case you spoke about. I do not know Sisk. I know each one of those cases is investigated very thoroughly by our tie and timber department before the tie contracts are given. I think it will be found that Sisk is a tie contractor and that we were justified in giving him a contract. He probably has been supplying ties for years, and gives the Railway traffic from the side cut.

Hon. Mr. VENIOT: Well now, right in Tracadie there were at least three big contracts given in that parish; whereas in other parishes where unemployment was rife, and people were starving, contracts could not be had by parties who had portable saw mills and owned lands.

Mr. VAUGHAN: We should like to know who they were.

Hon. Mr. VENIOT: In my letter to you I told you who they were.

Mr. VAUGHAN: I see the information we have in connection with that particular party is that he has never been in the tie business, and never took out ties.

Hon. Mr. VENIOT: That does not make any difference. He has crown lands, and you were told about it.

Mr. VAUGHAN: Are the railways going to give tie contracts to everybody who applies?

Hon. Mr. VENIOT: It is better to give a contract to men who have crown lands than to individuals who are exploiting settlers.

Mr. VAUGHAN: Any number of people have crown lands and do not take out ties. A lot of people have not crown lands, and are large tie operators.

Hon. Mr. VENIOT: I do not know whether your authority is at Moncton or not, but the information given to me showed that the result was the mill was closed down because this man could not get the contract. He had a contract for hardwood slabs and he could not take it, because the contract for the ties was given to some other man. He had a contract for hardwood slabs, and had he got the contract for the sleepers he could have used the slabs to fill his other contract. But the result was that he had to close down the mill and 35 or 40 people were left on relief.

Mr. VAUGHAN: They get work some place else. We have these representations made to us by thousands across the country.

Hon. Mr. VENIOT: There was no work. Understand me, I am not talking from a political standpoint, and never asked for a tie contract in my life on the ground of politics or patronage.

Mr. VAUGHAN: I will read you the letter we received from Moncton. I presume you are referring to Mr. Pineau.

Hon. Mr. VENIOT: Yes.

Mr. VAUGHAN: Here is the report we had from our officials at Moncton:—

I have had our inspector go to this point and from what information he could gather Mr. Pineau was formerly a barber and is now occupied as a contractor in building and painting houses, etc. He has no timber limits, and as far as can be ascertained, no mill.

Hon. Mr. VENIOT: That is a lie.

Mr. VAUGHAN: "Under the circumstances I do not think that any large contracts should be awarded this party."

Now, that is the result.

Hon. Mr. VENIOT: That statement that he has no timber limits is a lie.

Mr. VIEN: Who made that statement?

Mr. VAUGHAN: Our fuel and tie agent in Moncton.

Mr. VIEN: What is his name?

Mr. VAUGHAN: Wilmot.

Hon. Mr. VENIOT: You had better get in touch with Mr. Wilmot and tell him I said his statement was a lie. I am the one that handled the timber limits for Pineau.

Mr. WALSH: When were the timber limits acquired?

Hon. Mr. VENIOT: 1932.

Mr. VIEN: This is the first time he ever applied for a tie contract?

Hon. Mr. VENIOT: Yes, because he was lumbering for somebody else, soft wood. He got this other contract for hard wood slabs, and then he wanted to get a contract for ties.

Mr. VAUGHAN: We have a file that high from members of parliament and others, mostly members of parliament, this year, who ask that tie contracts be given on account of unemployment, and I submit we are going to make mistakes once in a while. We cannot always pick the right people.

Hon. Mr. VENIOT: When that statement contained in your letter to me that Mr. Pineau was a barber was received by me, I wrote and explained the whole thing. That statement came from me to you, and I think you should have looked into it further.

Mr. VAUGHAN: Well, as a matter of fact, personally I did not see the correspondence until recently; having investigated the thing through our Moncton office I think our tie and timber agent was quite justified in refusing to give a contract to the party.

Hon. Mr. VENIOT: No, he was not justified.

Mr. VAUGHAN: We cannot give contracts to all applicants for them.

Hon. Mr. VENIOT: How many contracts have you had in the upper part of Gloucester county?

Mr. VAUGHAN: Well, I cannot give it to you by counties, Mr. Veniot. I did not separate them.

Hon. Mr. VENIOT: If I mistake not, you had only one.

Mr. VAUGHAN: We have 88 contracts in the province of New Brunswick, which, I submit, is just about 80 more than we should have in the interests of the railway.

Mr. KINLEY: Why?

Mr. VAUGHAN: Because every extra contract involves additional expense to the railway in the matter of accounting, inspection and in other ways. It is more economical to the railway to have a few contracts than a large number. But in order to help unemployment we spread those tie contracts around, yet we do not seem to be able to satisfy anybody.

Hon. Mr. VENIOT: Do you remember the contract of W. J. Scott in the county of Restigouche?

Mr. VAUGHAN: Yes.

Hon. Mr. VENIOT: Do you know how many ties he contracted for?

Mr. VAUGHAN: I can tell you how many ties Mr. Scott has under contract for us, 15,000 soft wood and 8,000 hardwood.

Hon. Mr. VENIOT: Do you know whether he has any crown lands or not?

Mr. VAUGHAN: I know this: Mr. Scott has been in the tie business for a great many years. He is the sole contractor for the C.P.R. in the province of New Brunswick. He sells them several hundred thousand a year, therefore he must be a pretty good tie contractor.

Hon. Mr. VENIOT: He gets those contracts out the St. John river, and when he comes into Restigouche county to get one, you get their and oust the legitimate contractors from the Restigouche contract. He is in the position of getting contracts there for 75,000 from the C.P.R. I do not think it is fair, when Mr. Scott owns no crown lands in the northern part of New Brunswick.

Mr. VAUGHAN: I think you will find that Mr. Scott advances a good deal of money to people to get out ties.

Hon. Mr. VENIOT: For the C.P.R., by using the St. John river.

Mr. VAUGHAN: The same condition applies in our case. He is the only person in the province of New Brunswick with whom the C.P.R. makes contracts. We have 88 because of our desire to be fair and spread business around.

Mr. KINLEY: When you give your contracts to one man, what about delivery? Does he deliver at the regional point, or where?

Mr. VAUGHAN: Our contracts all provide for delivery on cars on the railway.

Mr. KINLEY: When you give a contract to the local man, he delivers it?

Mr. VAUGHAN: We take them from the local man at the nearest point of production on the railway.

Mr. KINLEY: Do you think it is fair?

Mr. VAUGHAN: We do. We take them from the local man where he produces them, at the closest point to the railways, the shortest haul to him.

Mr. KINLEY: You say you would rather have one contractor as you think it would be more advisable?

Mr. VAUGHAN: One contractor would save the railway money. He would deliver the ties at the same places as the settler. Probably, as happens in a great many cases the settler would prefer to sell his ties to the contractor, and we would get the ties just the same where the settler produces them.

Mr. KINLEY: The contractor gets a regular fee?

Mr. VAUGHAN: It is not a question of a regular fee, because I think you will find that a large number of the settlers prefer to sell through the contractor because he finances them.

Mr. KINLEY: No; in that way he controls the business.

Mr. VAUGHAN: The fact we have nearly 600 tie contracts shows nobody has a monopoly on our business.

Mr. KINLEY: He runs the business.

Mr. WALSH: They take it.

Mr. KINLEY: If they want the business, they have to do it in that way.

Mr. WALSH: No.

Mr. KINLEY: Yes.

Mr. WALSH: I know differently. I have lived in this district. I know the storekeepers keep these people from one year to another. They bring in these ties and they are credited as a counter account. That is how it is done. The storekeepers and others deliver ties to the railway which they have taken in counter account. I have lived on the Gaspé Coast, I know something about the tie business, and I know a lot of the statements that have been made here this morning are misleading. I quite agree with Mr. Vaughan in his suggestion that the railway has been put to a great deal of expense in their desire to spread this business around. I also agree with the suggestion that he is handing out con-

tracts after a proper investigation. His files prove rather conclusively that these things are properly investigated. If I were in the business and buying ties, I would naturally take the advice of my agent, rather than the advice of some outside party, who was probably interested in getting a contract.

Hon. Mr. VENIOT: I am not blaming Mr. Vaughan; I am blaming this system.

Mr. KINLEY: In my county I know that one store keeper has control of the tie business. I am speaking of one part of the county only. If a farmer deals with him, he may be able to sell some ties; if he deals with somebody else he cannot sell ties. The only point I wish to make is that it might be well for the railroad to deal as far as possible with the primary producer instead of dealing with the contractor who is going to take a percentage of the business.

Mr. HEAPS: How does the storekeeper have control?

Mr. KINLEY: He gets control.

Mr. VAUGHAN: In a great many places the small settler has not got the money to buy flour or sugar or hay or oats to go into the bush to take out the ties. He goes to the storekeepers and the storekeeper advances the supplies or money and the settler gives him the ties he produces. The storekeeper gets the ties, and we take the ties from the storekeeper. We cannot advance these men money.

Mr. HEAPS: Do you consider that to be the most efficient way for a railway to get the ties?

Mr. VAUGHAN: I consider the most efficient way for the railway to get these ties is to let large contracts for the ties to a few people. If we did that the railway would be money ahead, but we have not done that because we wanted to be as fair as we could to the settler, the small man, and that is how we drifted into this method of making so many tie contracts.

Mr. HEAPS: And you drift into all sorts of trouble.

Mr. VAUGHAN: Yes, we have drifted into all sorts of trouble. A great many tie contracts have to go to our legal department before the man is paid, to see that his crown dues and labour are paid. We have all kinds of trouble with these small contractors.

Mr. BOTHWELL: What are the smallest amounts of ties delivered under a contract?

Mr. VAUGHAN: Oh, I suppose, two or three, four or five hundred?

Mr. BOTHWELL: It seems to me we have come to a sorry pass if the railway company has to enter into contracts for two or three hundred ties scattered all over the country.

Mr. VAUGHAN: Yes.

Mr. HEAPS: That is explained by the effort to provide employment.

Mr. HANSON: I have a little experience in connection with the company which has been getting out ties, timber, posts and things of that kind for over 30 years. This year we got a contract for 75,000 ties for the Canadian National Railway. We understood that we were to spread these ties out, amongst all the settlers along the territory for which we had the contract. We put out 150 sub-contracts out of the 75,000 in amounts of 500 ties each. Out of the 150 sub-contractors 86 have been drawing relief in one form or another for the last two years. Since they got these sub-contracts every one of them have been taken off relief and they are quite happy. We make a charge to them for our cost of doing business and financing at a rate of 3 cents per tie. We find that that is not enough. You cannot do it for that cost. You see when a settler gets the ties out he gets them inspected and when they pass inspection he gets an advance of 80 per cent. Very often where it is not possible to get inspection

conveniently we take our chance and make the advance. When we place these sub-contracts we practically guarantee that the cost of labour will be paid, and that they will get sufficient to keep them, from the nearest storekeeper or somewhere, while they are taking these ties out. That is the way it is done in our district and I think it is very satisfactory. There have been some storekeepers who have taken ties contracts, and who have stipulated, that is to the settlers, that they had to buy all their stuff from them at their stores and at their prices, and they would not give them any cash. If they had anything coming when the contract was completed they had to take it out either in clothing or in supplies from the store.

Mr. VAUGHAN: That may sometimes happen, but where such cases are drawn to our attention and we find the cases proven a contractor does not get another contract from us.

Hon. Mr. VENIOT: I am quite aware of that point, but I do find fault with the representations made about a certain contractor, and I do not see why when you have representations by myself or other reliable people to the contrary—if I can be called a reliable person—I do not see why the matter is not looked into further. When I distinctly state that so and so is the possessor of crown lands to the extent of 10 square miles, notwithstanding that you claim you have a report saying that he has been a barber, a building contractor, and that he is not engaged in lumber. That statement is false, and I state that positively. I claim it should have been investigated further.

Mr. VAUGHAN: We will certainly investigate it further.

Hon. Mr. VENIOT: You say, we will investigate it further; that is what should have been done last fall.

Mr. VAUGHAN: But our agent at Moncton stated that this man had never been in the tie business before.

Hon. Mr. VENIOT: No, but he was in the lumbering business.

Mr. VAUGHAN: That may be, but he has never applied to us before.

Hon. Mr. VENIOT: I distinctly wrote that he was in the lumbering business, that he had two portable mills.

Mr. VAUGHAN: That is quite true, Mr. Veniot; but when I tell you that we have a file of letters that high (indicating) from members of parliament about men for whom they want tie contracts, you can appreciate what we are up against.

Hon. Mr. VENIOT: I did not want this man to get a contract simply for the sake of getting a contract. I wanted the contract given at that place in order to help employment. There is not within 20 miles of Nigado one bit of lumbering going on, except what that man Pineau would have carried on.

Mr. HEAPS: Do I understand Mr. Veniot to say that he wrote a letter to the Canadian National Railway asking that a contract be let to certain people in his district?

The CHAIRMAN: I think that is what is generally done.

Mr. HEAPS: I would like to know whether that is his statement. I could not quite hear.

The CHAIRMAN: That is what he said.

Mr. HEAPS: And his complaint is that they failed to get it.

The CHAIRMAN: Mr. Vaughan says that he is going to make further investigation, and he will see that such an error does not occur in future.

Mr. HEAPS: I do not think any member of parliament should start writing the Canadian National Railways asking them to give certain contracts to certain people in particular districts.

Mr. VIEN: Why not?

Mr. HEAPS: I do not think that sort of thing should be permitted. I do not think it is good policy. If it is going to be done in that way it ultimately becomes a question of patronage pure and simple. I do not mean to say by that that a member of parliament has not just as good a right to approach the management of the Canadian National Railways as anybody else; and quite possibly the management of the railways may find that after all the best way of getting their ties is direct from the settlers.

Mr. KINLEY: I think, as a matter of fact, that they get ties out cheaper in that way.

Mr. HEAPS: That may be so.

Mr. VIEN: I would like to know on what principle a member of parliament is deprived from recommending to the proper officials of the Canadian National Railways that a contract be given to a man living in his constituency, and who is able properly to deliver ties in proper condition to the Canadian National Railways. Why would a citizen of this country be deprived of this right that belongs to anyone else just because he is elected to sit in the Parliament of Canada? If there is anything I think it is that that it is his duty as a representative of the people; as construed for all time so far as history goes, back to the times of the Romans and Phoenicians, I would dare say, the same obtained. I do not see on what principle a man should be deprived of addressing himself to servants of the crown, be they trustees of the Canadian National Railways, or officers of the Canadian National Railways, or officers of the Canadian Pacific Railway, or officers of any other company. I am trying to find out on what principle I should be deprived of making such a recommendation. But the question I would like to ask, I did not want to butt in a little earlier, but the question I wanted to ask Mr. Vaughan was this: Here is a statement made by a member of parliament, by a Privy Councillor, by a member who has been a minister of the crown for a long number of years, who is a member of a particular constituency in Canada, and he states that such a man is the holder of crown timber limits and he requests that a contract be given to that man on compassionate grounds, to relieve the severe conditions and dire circumstances of people in his community. On your file you have a letter from a railway tie agent at Moncton to the effect that the man was a barber and is unable properly to carry out a contract for the delivery of ties to the Canadian National Railways, and that seems to be conclusive and final so far as the purchasing department of the Canadian National Railways is concerned. I am trying to ascertain how that could be, how you as vice-president in charge of this particular department would close your file on the report of the local tie agent, and neglect properly to consider the recommendation of the local member when he states that the report of your tie agent is a lie.

Mr. VAUGHAN: Well, I can tell you that one of the reasons was this: that we had so many applications for tie contracts that we did not know what to do with all of them. This one of Mr. Veniot's came along rather late.

Hon. Mr. VENIOT: One moment, don't use the word recommendation when referring to me. I made no recommendation. I pointed out the situation, that is all. I took very great care not to make a straight recommendation, because that would have been interpreted as political.

Mr. HEAPS: You are not worrying about that, are you?

Mr. WALSH: Probably the interpretation made by the people who had to deal with it was a recommendation.

Mr. VIEN: Be that as it may, I would not take offence at the use of the word recommendation. Any fair minded man would understand that in the circumstances that was only the human and commonsense action to take.

Mr. VAUGHAN: I was going to say that we are doing business with from 8,000 to 10,000 firms, and we have never yet asked a man what his politics are.

We are not interested in the politics of anyone. But we do realize that members of parliament have constituents who keep after them all the time. When we get a letter from a member we give it the same consideration that we would give to a representation from anybody else: We are not influenced by the fact that the man represents a constituency, but if we have the representation made to us that it is going to help employment, and if the application is from a legitimate producer or dealer it gets the consideration we think it deserves.

Mr. VIEN: But what I am trying to make is that in the case of a man of Mr. Veniot's standing I do not believe that I would feel justified in disregarding his recommendation in his letter just because a railway tie agent said that this gentleman was a barber when Mr. Veniot states that he is a timber limit holder.

Mr. VAUGHAN: Well, we are sorry that Mr. Veniot feels slighted. I am sure there was no intention to slight him at all. This is the reply that was given to him by our general lines timber agent. It is dated the 3rd of December, 1935, and he says:—

I have your letter of the twenty-eighth ultimo regarding application of Mr. Joseph Pineau, of Bathurst, to supply 7,000 or more hardwood ties to these railways in 1936.

You, no doubt, appreciate the fact that we are limited in the number of ties that we can purchase for next year's delivery and with the tremendous number of applications regret it is impossible for us to place orders with all who supply.

There are a large number of mills located on the Canadian National lines which produce for these railways big revenue freight and practically all of these mills are dissatisfied that we are unable to give them larger orders. We have tried to distribute our tie business fairly, in view of all the conditions that exist at the present time, and while we would like to do something for Mr. Pineau, I regret that it is impossible. The use of treated ties during the past 10 years has very materially decreased the number of ties required and the trend of our purchases for the next few years will be downward for that reason.

I think a very courteous reply was made to Mr. Veniot.

Hon. Mr. VENIOT: No, that is not the reply I am complaining about. It was the one in which you told me he was a barber.

Mr. VAUGHAN: That was a previous letter based on the report of our fuel and tie agent at Moncton.

Hon. Mr. VENIOT: That is the one you should have read.

Mr. VIEN: What is the date of that letter?

Mr. VAUGHAN: That letter was dated December 3, 1935. Here is the letter which we received from Mr. Veniot:—

I am in receipt of yours of the 27th instant with reference to a tie contract for Mr. Joseph Pineau. I note what you say about his having been a barber and a painter, and that owing to such you do not feel justified in giving him a contract. I do not know who wrote against Mr. Pineau, but I must say that whoever did so did not tell you the whole truth. Yes, years ago Mr. Pineau did some barbering but has long since been out of that business. He is not only a contracting painter and builder, but two years ago he went into the lumber business and has acquired the right to cut on an area of ten square miles, mostly all hardwood. He has his camp built on this area and is putting up a portable saw mill. This man is quite capable of filling any contract he may get and I would strongly recommend that he be given a contract of at least 7,000 or more ties. If he gets this contract he will be able to give considerable work

to the unemployed around here. If he does not get a contract he will have to considerably curtail the labour that he otherwise could give. Again, may I strongly urge that he be given a contract.

Mr. HEAPS: That is in the nature of a recommendation, isn't it?

Mr. VAUGHAN: After you wrote that letter the general tie and timber agent wrote you another letter. He does not dispute what you said at all, he simply gives the reasons why we could not give the contract.

Mr. VIEN: Apparently he preferred to take the statement of your tie agent at Moncton as against the statement made by Mr. Veniot.

Mr. VAUGHAN: I would not say that, Colonel Vien; because he outlines here the reasons. We probably could not have given the man a contract anyway at that particular time. We had probably decided not to let out any more contracts.

Hon. Mr. VENIOT: I would have been perfectly satisfied if you had said that no further contracts could be given; but when you came to give the reasons, one of the reasons was that this man had no timber limits, another that he was a barber, and so on. That is what I am concerned with.

Mr. VAUGHAN: That was the first reason, after we had that report. When you made your second report your statement was accepted.

Hon. Mr. VENIOT: No, it was not accepted.

Mr. VAUGHAN: Another reason given was because we had already let contracts for all the ties we needed.

Hon. Mr. VENIOT: It is all right. I am through with it.

Mr. HEAPS: When you are placing contracts for ties do the contracts go to the lowest tenderer, or how is it done?

Mr. VAUGHAN: We usually set the price.

Mr. HEAPS: Sometime ago we used to let contracts by tender.

Mr. VAUGHAN: That was up to a few years ago, Mr. Heaps. But when the unemployment situation became so acute in recent years we ceased advertising for tenders on ties. When we needed only three or four million ties, we were offered by tender between fifty and sixty million ties. The tenders included all kinds of prices, all the way from \$1.10 down to 50 cents or 60 cents. Now we set what we consider to be a reasonable price for ties in the different localities.

Mr. HEAPS: There is this difficulty, Mr. Chairman, there would be people there who had influence which they could bring to bear in obtaining contracts for particular localities for individuals. It might perhaps be advisable to let contracts by tender and let the lowest tenderer get it; yet, I realize that at times there might be some hardship involved. I thought that was the system followed clear across the country.

Mr. VAUGHAN: Our difficulty has been that some undesirable man would quote a low price so as to get the contract and then he would not be able to deliver. For that reason we have to be sure that the parties to whom we give the contracts are reliable. We have pretty reliable information as to the cost of making ties; haulage, what it costs to make roads which enables us to set a fair price to be paid for ties in each district.

Mr. HEAPS: It seems to me that whichever way you do it you are pretty nearly always bound to be between the devil and the deep sea.

Mr. VAUGHAN: I think the prices we pay are fair.

Mr. HEAPS: I am not speaking with regard to price. If you let by tender you are up against difficulties, and doing it the other way you have to try to satisfy some one, and there are always some people who are dissatisfied.

Mr. VAUGHAN: There are cases where it may happen that needed ties in a locality where the highest price had been quoted. The tender might be at 90 cents, and it might turn out that we would only pay him 50 cents.

Mr. VIEN: There is no doubt that the present system is far the best. Aside from the haulage question which you have just referred to, it is much easier and it affords greater facility in ensuring a proper distribution of these contracts among the local people. Particularly in times like these when you have to keep in mind the relief of unemployment I think the present system is much better. It is only a question of the proper exercise of good judgment in the distribution of these contracts among all the people, when the price has been fixed.

Mr. KINLEY: Are contracts for ties in the Maritimes signed at Montreal?

Mr. VAUGHAN: Maritime tie contracts are issued largely on the recommendation of our fuel and tie agent at Moncton.

Mr. KINLEY: Who is the agent?

Mr. VAUGHAN: Mr. Wilmot.

Mr. KINLEY: He has the final say so?

Mr. VAUGHAN: That is so, in so far as the recommendation to us is concerned. We may not always act on his recommendation.

Mr. KINLEY: So far as individuals are concerned you do not know all these contractors personally.

Mr. VAUGHAN: I think our timber agent in Montreal knows every contractor with whom we do business. I know all of the larger contractors myself. I know their ability to give us ties, and I know what they can give us in the way of traffic.

Mr. VIEN: Can you tell us who is the contractor at Roberval and in the Lake Saint John district?

Mr. VAUGHAN: I could not say that just off hand.

Mr. VIEN: Mr. Sylvestre was to be here this morning but was unable to get here. He has asked me to point out to you that in the Lake Saint John region and at Roberval—I am not personally cognizant of the fact but I am speaking for Mr. Sylvestre, the member for the locality—he said that contracts had been given to a Quebec company for ties to be delivered in the Lake Saint John district, and particularly at Roberval. He says that these people in Quebec are not lumbermen, are not particularly interested in that trade, except that they have been carrying on this particular business for the last three or four years; that they have given sub-contracts to settlers in the district; and that the settlers received 10 cents per tie as against 50 cents or 60 cents—that fixed price that you have referred to—and that notwithstanding the fact that he (Mr. Sylvestre) has made representations to officers of your department, not to yourself but to officers of your department, no redress has been given.

Mr. VAUGHAN: I will certainly look that up, but I know very well that if anything of that kind happened it would be immediately dealt with. We had difficulty for years getting the ties we required up around Roberval. My recollection is that the firm referred to made arrangements with settlers to develop and supply ties in that territory, that is probably what was done.

Mr. VIEN: They got them at 10 cents.

Mr. VAUGHAN: Ten cents lower than we pay?

Mr. VIEN: No. 10 cents a tie. Instead of 55 cents paid to the contractors the settlers were paid 10 cents.

Mr. VAUGHAN: That does not sound right on the face of it.

Mr. VIEN: I was told that there was a regulation to the effect that the contractor could not take more than 5 cents per tie.

Mr. VAUGHAN: It is right in our printed form.

Mr. VIEN: And notwithstanding that fact the contractor distributed contracts to the settlers at the rate of 10 cents a tie which was a spread of 45 cents between the price he received and the price he paid out, and that complaint was made to officers of your department at Montreal and that he got no redress.

Mr. VAUGHAN: Well, if any such complaint is ever made to us the matter is immediately taken up with the contractor, and we would hold money back from him unless we were satisfied that he was treating the settler fairly.

The CHAIRMAN: Will you investigate this case?

Mr. VAUGHAN: Yes, sir.

Hon. Mr. VENIOT: Do you instruct your contractors to look into the condition?

Mr. VAUGHAN: Absolutely. The minute we get complaints.

Hon. Mr. VENIOT: No, no; that is not what I mean: when they go there to inspect the ties do they find out what price is being paid to settlers?

Mr. VAUGHAN: Our tie inspectors are instructed to make full enquiries into these matters at every place where they inspect ties.

Hon. Mr. VENIOT: I wish you would refresh their memory.

Mr. VAUGHAN: And to report to our tie agent.

Hon. Mr. VENIOT: There seems to be some leeway in complying with the regulations.

Mr. VAUGHAN: If the contractor is not complying with them we will certainly get after him and issue instructions again, but we can only take complaints up when they are drawn to our attention. I think we have shown our good will by putting that in our contracts.

Hon. Mr. VENIOT: Understand me. I am not bringing this up as a criticism to you people; I am criticizing the system; the system is a bad one.

Mr. VAUGHAN: How would you change the system?

Hon. Mr. VENIOT: Don't ask me. I know it is a bad one and it should be improved.

Mr. HEAPS: Might I ask this question: I see the figures for ties for 1935 is approximately half a million dollars more when compared with 1934. I was under the impression that in previous years we had such a large stock of ties that we would not require any for some time to come?

Mr. VAUGHAN: There is a difference sometimes between the ties purchased and the ties put into the track. For several years we bought less ties than we used, or put into the track, so that long since we have worked off any surplus.

Mr. HEAPS: Is not that four and a half million approximately one year's supply?

Mr. VAUGHAN: What number is that?

Mr. HEAPS: Page 21, \$4,524,000.

Mr. VAUGHAN: It would probably be because there were more ties put in the track than in the previous year.

Mr. HEAPS: It is not an annual consumption of ties?

Mr. VIEN: Perhaps Mr. Fairweather could give us the figure for the last five years?

Mr. FAIRWEATHER: For ties?

Mr. VIEN: Yes, the amount of ties purchased in each year for the last five years.

Mr. FAIRWEATHER: Yes. I have what purports to be a statement showing the total number of ties—untreated ties purchased.

Mr. VIEN: We are not interested in the number of ties so much as in the amount of money.

Mr. HEAPS: Well, you might as well give both. There is a big difference in the price.

Mr. FAIRWEATHER: Perhaps I had better make up a statement. I will take note of the question and submit a report on the matter.

Mr. VIEN: Let us have the number of ties and the amount of money spent on ties for the last five years.

Mr. FAIRWEATHER: That is on purchase of ties?

Mr. VIEN: On purchase of ties. Why do you make a distinction?

Mr. FAIRWEATHER: There is a difference, you see. We purchase ties and carry them in store, and the price that we pay for the purchase is the purchase price, but after we get them we store them and distribute them and the price at which they go into the accounts is a charge against operation and includes the stores' charges.

Mr. McLARTY: It would be the equivalent figure as compared with \$4,524,000, as far as the value is concerned.

Mr. HEAPS: There is a difference between value and the number of ties supplied. To get a fair idea we must also have the number of ties purchased, because the price fluctuated during the past five years.

Mr. VIEN: Mr. Fairweather was not referring to that. If I understood his statement—and I want to be corrected if I am wrong—he stated that the ties are charged there as they come out and are used.

Mr. FAIRWEATHER: Yes, sir, in the account.

Mr. VIEN: Not as they are purchased.

Mr. FAIRWEATHER: Not as they are purchased.

Mr. VIEN: Now, the expenses shown on page 21 are the expenses for those two years as the ties went out of your stores?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: Now, where do you keep the figures when you buy the ties?

Mr. FAIRWEATHER: That is an internal account of the railway. I can give you those figures. They would not show in this published report.

Mr. VIEN: Where would you put the two accounts: the account for the ties as they come out of your stores to service, and the account as you buy them for the last five years?

Mr. FAIRWEATHER: Of course, if you want the complete statement we will also have to show the cost of treating, because a great many of our ties are creosoted after we buy the ties.

Mr. VIEN: Do you treat them yourselves?

Mr. FAIRWEATHER: No. We have contractors who treat them, but we buy the ties untreated and send them to treating plants, have them treated and distributed to stock.

The CHAIRMAN: Will you prepare that report?

Mr. FAIRWEATHER: Yes. Rails, other track material, ballast, track laying and surfacing, right-of-way fences, snow and sand fences and snow sheds, crossings and signs, station and office buildings—

Mr. BOTHWELL: With regard to that item, were any additional buildings constructed?

Mr. FAIRWEATHER: Just maintenance of the buildings and everything that goes into the maintenance of buildings; certainly no large construction. There might be a small station.

The CHAIRMAN: The heading of the item itself is "Maintenance of Way and Structures Expenses." We are dealing only with maintenance at present.

Mr. FAIRWEATHER: This is maintenance.

Mr. VIEN: As regards rails, may I ask how you proceed to buy your rails? By tender or otherwise?

Mr. FAIRWEATHER: Well, of course, I am not in the purchasing department; I know generally.

Mr. MORROW: Mr. Vaughan could answer that.

Mr. VAUGHAN: You gentlemen, of course, know what has happened in the last few years. Orders for rails have been placed by the government to take care of the unemployed and a price was fixed at the time which was considered reasonable. We do not pay for those rails or become involved or obligated regarding interest in any way until the rails are taken, delivery of which, in some cases, is a considerable time after the order was placed and the rails are rolled.

Mr. YOUNG: You said the price is fixed; by whom?

Mr. VAUGHAN: It has been fixed by the government in co-operation with us before the rails were ordered to take care of unemployment. There are only two steel mills in Canada rolling rails.

Mr. VIEN: Who are they?

Mr. VAUGHAN: Algoma Steel Corporation at South Ste. Marie and the Dominion Steel Corporation of Sydney.

Mr. McLARTY: How would these prices given here compare with the prices fixed when the railway was fixing the prices itself?

Mr. VAUGHAN: The prices are approximately the same. We did have some adjustment from the prices fixed in the order in council because in the meantime the price of rails had dropped in the States and we considered there should also be a reduction in the Canadian price. So between the time the order in council was issued and the rails were delivered a better price was arranged for the undelivered balance of the rails.

Mr. VIEN: Do you buy all your rails in Canada?

Mr. VAUGHAN: All the rails we use in Canada are purchased in Canada.

Mr. VIEN: You do not buy any rails outside of Canada?

Mr. VAUGHAN: No, sir, we do not import any rails into Canada at all.

Mr. VIEN: Are those figures on the same basis as those that Mr. Fairweather mentioned a few minutes ago with respect to ties; that is are those the rails as they come out of your stores?

Mr. VAUGHAN: Yes.

Mr. VIEN: Do you store a lot of them in advance?

Mr. VAUGHAN: We do not store much new rail, but there is always a considerable quantity of relay rail on hand.

Mr. HOWARD: When you lay new rails how do you handle the accounting end of it?

Mr. VAUGHAN: I think the accounting department must answer that question.

Mr. HOWARD: What do you charge up to the total cost?

Mr. FAIRWEATHER: In the year it takes place if the rail was the same weight as the rail that is taken up it is considered a renewal. Well, all the cost

of changing the rail would be charged to operating expenses, less the salvage of the rail that was taken out—that was scrapped and taken out. That would be credited, but the balance would be charged to expenses.

Mr. HOWARD: Entirely in the year it was laid?

Mr. FAIRWEATHER: Yes. It is not carried over from one year to another.

Mr. VIEN: How do you carry the amount that has been spent to buy rails which are stored for the time being?

Mr. FAIRWEATHER: If we actually spend the money that would be carried in our working capital.

Roadway buildings, water stations, fuel stations, shops and engine-houses, grain elevators, storage warehouses, wharves and docks.

Hon. Mr. VENIOT: Does the government own any wharves at Pointe du Chene, or is that upon transfer?

Mr. FAIRWEATHER: We will have to look that up.

Mr. KINLEY: There has been some conflict between the Departments of Public Works and Railways with regard to these wharves. Is it the policy for the railways to take them over or are they to revert to Public Works?

Hon. Mr. FULLERTON: Public Works have been taking over a number of them.

Mr. PARENT: Has the C.N.R. any wharves at the harbour in Quebec that they rent from the Harbour Commission?

Mr. HUNGERFORD: We own one.

Mr. PARENT: Have you been using it for a number of years on the frontage of the river?

Mr. FAIRWEATHER: We have not used it ourselves.

Mr. PARENT: Is it property owned by the C.N.R.?

Mr. FAIRWEATHER: No, it is government property; it belongs to the Canadian government railways.

Mr. PARENT: What is the frontage of that?

Mr. HUNGERFORD: I cannot tell you that offhand.

Mr. PARENT: Would you obtain the details, please, relating to the wharf?

Mr. HUNGERFORD: Yes.

Mr. PARENT: Because we are having a lot of trouble to find space with the Harbour Commission, and I think there is a vast area of land on the Trans-continental railway which was bought around 1910 and which is not actually used by the C.N.R. because the road was changed. The wharf belonged to the C.N.R., and the disposition of the road was changed, and they are coming in to the Palace Station now.

The CHAIRMAN: You want the size, the frontage, the number of feet and the use?

Mr. PARENT: They are not using it, and we are looking for wharves. We might get a chance—

Mr. VIEN: And the leases.

The CHAIRMAN: The officers will get all the information.

Mr. FAIRWEATHER: Telegraph and telephone lines, signals and interlockers, power plant buildings, power substation buildings, power transmission systems, power distribution systems, power line poles and fixtures, miscellaneous structures, paving, roadway machines, small tools and supplies, removing snow, ice and sand, assessment for public improvements, injuries to persons, stationery and printing, other expenses, maintaining joint tracks, yards and other facilities, Dr.

Mr. BOTHWELL: "Maintaining joint tracks, yards and other facilities, Dr." And a similar item follows for credit. I see this carried through in several pages of the report. Would you explain this item to us?

Mr. FAIRWEATHER: It is the result of the accounting classification which has been adopted. If we have a joint facility with some other railway company—for instance, it might be a railway yard in a certain city or town, and the agreement provides that each of the railways using that yard will pay a proportion of the maintenance—if we do not own the property but had to pay a part of the maintenance, it would be shown here as maintaining joint tracks, yards and other facilities, Dr. That indicates the amount of money which was spent by us on maintaining a property that we do not own but which we had operating rights on. The other item "maintaining joint tracks, yards and other facilities, Cr." is the amount of money which we collected from people on corresponding facilities.

Mr. BOTHWELL: Why does that come under maintenance of way and structures—the credit item?

Mr. FAIRWEATHER: Because instead of taking it into revenue, the accounting classification takes it in here as an offsetting expense.

Mr. BOTHWELL: Is that included in the total of \$34,000,000?

Mr. FAIRWEATHER: Oh, yes. It is a credit. If you will look you will see that it is in italics, and it is subtracted.

Mr. BOTHWELL: The whole column of figures is totalled and that figure in italics is deducted so that the final figure is \$34,000,000?

Hon. Mr. VENIOT: "Injuries to persons" Is that net expenses? Does that represent persons in the employ or outside?

Mr. FAIRWEATHER: That refers to injuries to persons employed almost entirely in the maintenance of way department.

Hon. Mr. VENIOT: Would they come under the Workmen's Compensation Department?

Mr. FAIRWEATHER: Yes.

Hon. Mr. VENIOT: Have you an arrangement with the Workmen's Compensation Act in the different provinces by which you pay in a lump sum?

Mr. FAIRWEATHER: We follow the law in every province.

Mr. VIEN: Do you come under the Workmen's Compensation Acts of the various provinces?

Mr. FAIRWEATHER: Oh, yes.

Mr. VIEN: But that should certainly include damages paid to outsiders.

Mr. FAIRWEATHER: That is in another account, sir. You will find it under "transportation" later on. This is maintenance account, and the amount for personal damage is split up into maintenance of way, maintenance of equipment and transportation.

Hon. Mr. VENIOT: The Workmen's Compensation Act in the different provinces indicates under what classification an injured person shall come?

Mr. FAIRWEATHER: According to the law. We are bound by their findings.

Mr. KINLEY: You do not pay any fixed amount to the compensation board; they decide what it is worth and you pay the charge?

Mr. FAIRWEATHER: It differs in different provinces.

Hon. Mr. VENIOT: You pay your proportion of administration based on the amount of money you pay per year per injury in the province of New Brunswick.

Mr. KINLEY: You are not assessed by the board.

Hon. Mr. VENIOT: Not a general assessment.

Mr. FAIRWEATHER: The next item is depreciation, U.S. lines only.

Mr. VIEN: What is the ratio of the depreciation on U.S. lines?

Mr. FAIRWEATHER: Oh, well, I imagine there will be, perhaps, several rates involved there.

Mr. VIEN: That is only in respect of maintenance.

Mr. FAIRWEATHER: These are items of fixed property that we have charged depreciation on.

Mr. VIEN: They would vary with different catagories of structures.

Mr. FAIRWEATHER: We have accrued depreciation on lining of tunnels 1 per cent; then, on bridges—certain bridges—we accrue from 1 to 5 per cent, depending on the type of bridge; then there is another item here for office equipment 4 per cent.

Mr. VIEN: They would be on various classes. What is the range of these percentages?

Mr. FAIRWEATHER: They seem to run from 1 to 5 per cent.

Mr. WALSH: There is an item here "Depreciation—U.S. lines only." Is that included in the item of about \$6,000,000, retirement of equipment? Has that anything to do with that at all?

Mr. FAIRWEATHER: No; that is depreciation of certain structures; as I say, some tunnel lining.

The CHAIRMAN: You will find a summary of operating expenses and then you will see there are sub headings. We have taken the details one after another. On page 22 you will find maintenance of equipment expenses. That is what we are taking now.

Mr. FAIRWEATHER: Maintenance of equipment expenses: Superintendence; shop machinery; power plant machinery; power sub-station apparatus; steam locomotives—repairs; other locomotives—repairs; freight train cars—repairs; passenger train cars—repairs; floating equipment—repairs; work equipment—repairs; miscellaneous equipment—repairs; express equipment—repairs; express equipment—retirements.

Mr. BOTHWELL: May I ask a question before you finish with these repairs? The items show increase in 1935 over 1934. Is there any particular explanation for that?

Mr. HUNGERFORD: Well of course there was more business in 1935 than in 1934. That naturally means an increase in the work to be done; also there was a restoration of part of the wage reduction which increased the wage bill.

Mr. HEAPS: May I ask Mr. Hungerford if he is in a position to answer my question? I am referring to the amount of extra help put on last year in regard to repair work on the railways. I understand the Canadian National put on quite a large number of extra workmen. Mr. Hungerford, can you give to the committee the number of extra men hired as a result of the extra appropriation of parliament, and can you tell me whether or not these men are still in the employ of the company, or if they have been laid off?

Mr. HUNGERFORD: I think we promised to get the information for you. We are getting it but we have not received it fully yet.

Mr. HEAPS: Has there been quite a lay-off in the Canadian National in recent weeks?

Mr. HUNGERFORD: There has been a lay-off in certain shops where the cars that were being built were completed. As the cars have been completed the extra help was laid off.

Mr. HEAPS: Has it not been because the appropriation parliament voted last year has been used up by the Canadian National?

The CHAIRMAN: If you look at page 9 of the report of the board of trustees, I think you will find that information.

Mr. HEAPS: That does not give the information I am asking for.

Mr. HUNGERFORD: The extra was employed to build new cars. When the cars were completed, the extra help was laid off.

Mr. HEAPS: I shall wait until the information comes.

Mr. VIEN: Were all these repairs carried out in your shops?

Mr. FAIRWEATHER: Yes. Equipment retirements (demolition costs); equipment retirements, Canadian lines; equipment retirement, U. S. lines; depreciation, U.S. lines only; injuries to persons; insurance; stationery and printing; other expenses; maintaining joint equipment, debit; maintaining joint equipment credit.

Mr. KINLEY: Where is the stationery and printing done?

Mr. FAIRWEATHER: We buy that. The stationery and printing is done by outsiders.

Mr. KINLEY: I know we buy it from the printers, but have you an organization of your own for printing?

Mr. FAIRWEATHER: No, we buy from printers. We do not attempt to run any printing shops.

Mr. KINLEY: How do you distribute that ?

Mr. VAUGHAN: It is all bought on a competitive basis?

Mr. HEAPS: Do you get letters from members of parliament?

Mr. VAUGHAN: We get letters from members of parliament and everybody.

Mr. HOWARD: Not from everybody.

Mr. VAUGHAN: Personally I have not much quarrel with members of parliament. I am not as much afraid of political influence as public influence. We can resist political influence.

Mr. VIEN: Hear, hear.

Mr. VAUGHAN: The public go to their member and then they write to us, but I must say this, and I do not say it flatteringly; all the years I have been handling the purchases for these railways only two members of parliament, one on each side of the house, I found unreasonable.

Mr. BOTHWELL: What do you mean by joint equipment, Mr. Fairweather? Do the Canadian National and some other railway own equipment jointly?

Mr. FAIRWEATHER: Yes, that would be an accurate construction of it.

Mr. BOTHWELL: I should like to know what equipment you own jointly.

Mr. FAIRWEATHER: For instance, you might have a yard which was jointly used, and the cost of maintaining the switch engine would be divided between the people who used it. I do not know that I can give you any clearer example than that.

Mr. BOTHWELL: It does not really mean you jointly own it. One railroad owns it, and you both use it? It is jointly used?

Mr. FAIRWEATHER: Used by the two and this is a division of the maintenance.

Mr. VIEN: There is a question I should like to ask in regard to equipment retirements, and it is in connection with road and equipment retirement in the profit and loss account on page 18. I should like to know how to divide the retired road equipment from this item. Is there any connection between equipment retired here and the road and equipment retirement carried on page 18, profit and loss account?

Mr. FAIRWEATHER: The item carried on page 18 is in no sense related to the retirement carried on page 20.

Mr. VIEN: Outside of the fact that this is charged to operating expenses and

the other to profit and loss account, is there any other relation between the two?

Mr. FAIRWEATHER: Only as explained in the pamphlet that was distributed which showed that the amount charged in the expenses in the year 1935 to the year 1935 represents what the management deemed to be the normal retirements. The amount charged to profit and loss represents the abnormal retirements that were brought about by conditions outlined by Mr. Hungerford, and which have been more fully detailed in the pamphlet.

Mr. VIEN: Yes; but to give a proper picture of what the operating expenses are, and what is the real result of your operations those abnormal retirements which become necessary from time to time and which have been charged to profit and loss should have been charged from year to year to operating expenses.

Mr. FAIRWEATHER: Well of course it all appears in profit and loss finally.

Mr. VIEN: Yes; but I am not addressing myself to that point. I do not claim it is not shown somewhere in your account, but I say when you come to give parliament a proper picture of what your operating expenses are, leading to the operating ratio, this a bit distorts the picture, inasmuch as it is abnormal retirements that you speak of; and for proper bookkeeping should be carried from year to year in your annual retirement. In your retirements for 1934 you show an item of \$4,391,000 and in 1935 an item of \$4,786,000. If you did not carry in your profit and loss account for a certain period of years, the abnormal retirement item, you would have to increase these annual retirement items?

Mr. FAIRWEATHER: May I say, Mr. Vien, that the situation that arose during the depression is something unique. It is a condition that arose not only in Canada and on the Canadian National, but also in the United States.

Mr. VIEN: Is it not a fact that in the United States it arose only because of the decision of Congress and of the Interstate Commerce Commission to unify certain railroads, and in that unification of course, retirement was in order?

Mr. FAIRWEATHER: No, sir, that was not the thing. Any prospective unification had no bearing on it. It simply meant this: United States railroads after practising depreciation accounting for equipment for many years were overwhelmed by such a revolutionary change in traffic conditions that their equipment depreciation reserves were inadequate, and they were faced with a condition of having to write off to profit and loss in a period of depression, very large amounts. As a matter of fact we followed them. We got the idea from the procedure in the United States, because we might have carried this item in suspense and charged it out over a series of years, which would have met your idea; but it seemed better to do what the United States railroads had done.

Mr. VIEN: Why did it seem better?

Mr. FAIRWEATHER: Well, in my opinion it presents the accounts clearer.

Mr. VIEN: Well more or less.

Mr. HUNGERFORD: May I make this distinction. We recognize that, and I think everybody does. But there are many units of equipment that are worn out and are retired. If the book value, less salvage, is properly chargeable to operating expenses, it works out all right, but if there is a broad change in conditions which leaves units of equipment obsolete, no longer usable although not worn out, then the Interstate Commerce Commission authorizes charging the latter to profit and loss, and that is exactly what we did. We followed the practice of the Interstate Commerce Commission in connection with the same subject in exactly the same way.

Mr. VIEN: Would you make the statement that nothing in this item of \$29,000,000 charged to profit and loss was due to inadequate yearly retirements?

Mr. HUNGERFORD: Let me tell you what happened: For a number of years following amalgamation we made a survey and determined the number of units that in the opinion of the mechanical officers were worn out and should be

retired. We determined our book value from the records and put an item in the budget to offset that amount. That equipment was retired and year after year we arrived at the end of the year with a clean bill of health; that is to say we had retired all of the units that in the opinion of the company were obsolete.

Mr. VIEN: To cover what period?

Mr. HUNGERFORD: That extended from about 1923 to 1930. So that we found at the end of the year, by following that process, we had no accumulation of units that should be destroyed. Judged by these results we think the procedure we followed was correct.

Mr. VIEN: You feel that the annual retirement item is adequate?

Mr. HUNGERFORD: Yes.

Mr. HOWARD: Up to 1930.

Mr. VIEN: And since 1930 abnormal conditions alone brought about the necessity of retiring equipment to the tune of \$29,000,000?

Mr. HUNGERFORD: \$26,000,000.

Mr. FAIRWEATHER: That is not all equipment. Road is in there as well.

Mr. VIEN: What is the amount of equipment?

Mr. WALSH: \$23,000,000.

Mr. HUNGERFORD: \$23,000,000 net.

Mr. VIEN: As well as salvage.

Mr. HUNGERFORD: As well as salvage.

Mr. VIEN: What is the total number of pieces?

Mr. FAIRWEATHER: About 16,000.

Mr. WALSH: 16,912. Do you think that the item carried in the profit and loss account will recur?

Mr. HUNGERFORD: I do not think so. I cannot see a condition that will bring it about. We do not expect that it will ever happen again. So far as wooden freight cars are concerned, we were prohibited by a new regulation from offering them in interchange, and so far as locomotives and passenger cars are concerned, a shrinkage in traffic on branch lines and in local services rendered them unnecessary. We had no further use for them.

Mr. WALSH: When did that new regulation come into effect in connection with wooden rolling stock?

Mr. HUNGERFORD: These regulations are of an international character.

Mr. WALSH: When did they come into effect?

Mr. HUNGERFORD: The regulation was put into effect the first of last January.

Mr. WALSH: The value of the Canadian National rolling stock equipment is presumed to be in the neighbourhood of \$400,000,000; is that correct?

Mr. HUNGERFORD: About \$375,000,000.

Mr. WALSH: What percent of that should be retired annually? Have you figured on any per cent, two per cent?

Mr. HUNGERFORD: We ask for a certain amount each year; it is shown in the budget.

Mr. WALSH: You do not anticipate a certain definite retirement each year?

Mr. HUNGERFORD: Yes we do, and we specify that amount in the budget.

Mr. WALSH: You do not presume each year you are going to retire three per cent of the rolling stock?

Mr. HUNGERFORD: No, not necessarily on a percentage basis.

Mr. VIEN: But if the depreciation account in the United States is estimated at 3 per cent, don't you think you are bound to come to a time when you will have to carry in the profit and loss account an item of this kind, if your annual retirement is only $1\frac{1}{2}$ to 2 per cent?

Mr. HUNGERFORD: Well, the whole situation is complicated by the question of retirements.

Mr. VIEN: Maintenance and repairs?

Mr. HUNGERFORD: Yes. If these units of equipment are heavily repaired they may continue to be used for a great length of time.

Mr. VIEN: In the United States they have repairs and they have retirements and depreciation.

Mr. HUNGERFORD: Yes, but there are repairs and repairs. Some roads repair perhaps more heavily than others do.

Mr. VIEN: Do you believe that you offset by additional repairs the difference between your retirement ratio and the depreciation ratio provided for by the United States railway?

Mr. HUNGERFORD: We are quite sure we did for the period between 1923 and 1930, as has been proved by the result.

Mr. VIEN: Would you have the same assurance as regards the present condition?

Mr. HUNGERFORD: No; the situation is complicated by the uncertainty as to the trend of traffic.

Mr. VIEN: Therefore to-day you would not be ready to state that your present ratio of retirement is equivalent to the depreciation ratio as provided for in the United States railroads?

Mr. HUNGERFORD: I do not think anyone can be absolutely certain in regard to it; but my belief is that we are charging out this year a sufficient amount.

Mr. VIEN: Even now?

Mr. HUNGERFORD: Even now.

Mr. WALSH: You consider what you are charging annually at the present time is quite adequate?

Mr. HUNGERFORD: Yes, I think so, and the test of it, Mr. Walsh, is that at the end of the year we have cleared up all equipment and destroyed it, that in the opinion of the mechanical officers should be destroyed.

Mr. WALSH: Do you require any particular authority for making this retirement of 16,912 units, or is that done in the ordinary course of administration?

Mr. HUNGERFORD: Administration.

Mr. WALSH: There is no authority required to retire equipment of that nature.

Hon. Mr. FULLERTON: It was done by resolution of the trustees on the recommendation of the president, and the matter was discussed at the last meeting of the committee here. It is set up on page 11.

The CHAIRMAN: Is that all, Mr. Vien?

Mr. WALSH: You would not consider that the provision made for retirement from 1923 to 1930, annually, sufficient during those years?

Mr. HUNGERFORD: Yes, I do.

Mr. WALSH: But they were so much lower than the amounts in the years following, from 1930 to 1936.

Mr. HUNGERFORD: That is including the profit and loss?

Mr. WALSH: In 1923 you show for retirement of equipment \$1,000,000; in 1924, \$2,000,000; and then we get down to \$3,564,000.

Mr. HUNGERFORD: There were smaller charges in earlier years because we were retiring equipment which stood on the books at a comparatively low figure. As that was cleared up we gradually got into an area in which higher prices obtained. We stepped that amount up by half a million dollars to offset this increase in value.

Mr. VIEN: Is this equipment represented by the item of \$29,000,000?

Mr. FAIRWEATHER: No. Of course, Mr. Vien, you realize that that \$29,000,000 is not all equipment.

Mr. VIEN: No. \$26,000,000.

Mr. FAIRWEATHER: The actual physical scrapping of these cars is not completed. There are still a number of them to be scrapped.

Mr. VIEN: They are on your siding now for that purpose?

Mr. FAIRWEATHER: They are in the demolition yards ready to be destroyed. Item agreed to.

The CHAIRMAN: Operating expenses—traffic expenses.

Mr. FAIRWEATHER: Superintendence, Outside Agencies, Advertising, Traffic Associations, Stationery and Printing, Other expenses, Industrial Bureau, Colonization, Agriculture and natural resources.

Hon. Mr. VENIOT: Is your colonization system working out well? Is it working? What is your system?

Mr. FAIRWEATHER: We have a department especially charged with that function. The title of the department is self-descriptive. They look after colonization, agriculture and natural resources.

Hon. Mr. VENIOT: I take it from that that you still place people on the land.

Mr. FAIRWEATHER: Oh, yes.

Mr. VIEN: I would like to have some further information as to what are your natural resources, I would imagine that would include land and I do not know what else, which would require you to have a colonization and agriculture department.

Mr. FAIRWEATHER: Of course, we have a large amount of land grants which we inherited from the Canadian Northern; also timber limits, and we have all kind of mining concessions and rights.

Mr. VIEN: And the colonization scheme that you carry out in that department is for the purpose of finding settlers for the farm lands which you own?

Mr. FAIRWEATHER: Or anywhere adjacent to our line. Anywhere we can place a settler adjacent to our line we think it is to our advantage.

Mr. VIEN: Don't you think it would be just as well to merge that in the colonization department of the State?

Mr. FAIRWEATHER: Of course, that would be a question of policy.

Mr. VIEN: What is your opinion as to that?

Mr. FAIRWEATHER: Well, I do not know that my personal opinion would be worth very much; but I feel that there should be, as there is, the very closest cooperation. There are aspects of colonization work which in my opinion can be most efficiently carried on by an officer of the railway department.

Mr. VIEN: I do not know—I may be wrong, and I would like to be corrected if I am—but these being crown lands, because they are crown lands, if they are Canadian National Railway lands they are crown lands, and it seems to me that a department of colonization with officers particularly charged to look after it from the point of view of the railways might possibly develop these lands; and it would save the item of some \$150,000 a year for this particular department.

Mr. McLARTY: Would you save that?

The CHAIRMAN: I would point out that they are the property of the railway.

Mr. VIEN: They are crown lands. Everything that belongs to the Canadian National Railways belongs to the crown.

Mr. HANSON: I might say that the colonization and natural resources department is doing a wonderful work in that portion of Canada from which I have come. It is the kind of work, I know, that is very much appreciated by chambers of commerce and boards of trade; because quite often we get letters from eastern Canada, the States or other places, asking for information as to resources and possibilities, and one thing and another; and I know that in all instances we refer them to the Canadian National colonization agent for that district whom we find has a full knowledge of everything, and they can get the information better from him than they would get it from our own district agriculturists. It seems to me that this department is functioning very very effectively in our portion of the country.

Mr. WALSH: Is there one person in charge of these three departments?

Mr. FAIRWEATHER: Yes.

Mr. HUNGERFORD: His name is Dr. Black.

Mr. WALSH: Is he known as commissioner; and is there a distinction with respect to each branch of the work?

Mr. FAIRWEATHER: No. This department is in charge of Dr. Black.

Mr. WALSH: And natural resources is under the same person?

Mr. FAIRWEATHER: Yes.

Mr. WALSH: There is no difference between the Canadian National having a department of this nature, and the Canadian Pacific or any other private company.

Mr. FAIRWEATHER: No. It is pretty much the same. Ours is in no way nearly as extensive as theirs is.

Mr. WALSH: It serves a useful purpose in connection with the railways. These corporations which own vast tracts of land must be able to provide proper management for that property, that is what I was trying to emphasize. The Canadian National is no different in this respect than the Canadian Pacific, and this department is a distinct asset to the Canadian National Railways.

Mr. VIEN: Oh, yes; and necessary I should think.

Mr. WALSH: Quite necessary I should think.

Mr. VIEN: Where you have these vast tracts of land there must be someone able to sell them, and to look after development generally.

Mr. WALSH: Mr. Fairweather mentioned mining areas and so on. The Canadian National Railways makes no effort to develop mines?

Mr. FAIRWEATHER: No.

Mr. WALSH: But where you have an opportunity to dispose of a mining area to advantage I presume that is done.

Mr. FAIRWEATHER: Quite. If we have a property that has good mining prospects that would no doubt be done.

Mr. WALSH: In other words, you conduct this department exactly as any other privately owned railway would conduct a similar department?

Mr. FAIRWEATHER: Yes, sir.

Hon. Mr. VENIOT: When you place a settler on your land what are the conditions?

Mr. FAIRWEATHER: I do not know all the details.

Mr. VIEN: Outside agencies, what do they comprise? There is an item of \$2,175,000.

Mr. FAIRWEATHER: This represents the traffic expenses of all the agencies that we have in foreign countries and in the United States. They are what we call "off line" agencies.

Mr. VIEN: Have you a list of these agencies?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: Could you file that with the committee?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: And are they concerned exclusively with the Canadian National National Railways from the railway point of view, or do they have also to look after colonization and the development of natural resources?

Mr. FAIRWEATHER: Well, there used to be a fairly extensive independent colonization department with their own solicitors, but that has been almost completely done away with now and the agencies of the Canadian National in these foreign countries attend to freight, passenger, and any other features of the Canadian National Railways that might be referred to them.

Hon. Mr. VENIOT: Have you any colonization agents who make an endeavour to get Canadians living in the United States to return and take up land in Canada?

Mr. LABELLE: That is one of the activities of the department, but it is limited compared to what it was before.

Mr. VIEN: Have you a more detailed statement of that item of \$2,175,000 for outside agencies?

Mr. FAIRWEATHER: I think that we could give you that. We could give you a list of all our outside agencies.

Mr. VIEN: What I am asking you now is, you might split up this item for each particular outside agency. Could you do that?

Mr. FAIRWEATHER: Yes, sir, I think so.

Mr. VIEN: What I would like to understand is how it is necessary to spend as much as \$2,175,000 for outside agencies?

Mr. FAIRWEATHER: It is money well spent, sir.

Mr. VIEN: I don't know about that.

Mr. FAIRWEATHER: I had occasion some years ago to go into that matter to see if these outside agencies were earning their keep, and to see whether the amount of traffic—for instance, we would have an agent down in Kansas City (that would be a good illustration) and I made a study to see whether the agent at Kansas City was earning his keep in the amount of traffic he was diverting to the Canadian National Railways, and I reached the conclusion that he most decidedly was.

Mr. HUNGERFORD: Their principal function is that of soliciting freight and passenger traffic, and they solicit not only for the railways but for the steamships as well.

Mr. VIEN: Yes.

Mr. FAIRWEATHER: We have them in Singapore for instance. We have an agent in Hong Kong. We have an agent in Japan. If our agent in Japan were able to influence the shipment of one train load of silk, which is highly competitive, from Vancouver to New York as against the United States route he would pay for the agency for ten years.

Mr. WALSH: You don't happen to have an agent in Abyssinia?

Mr. FAIRWEATHER: I do not think we have one there.

Mr. VIEN: Does all this come under Dr. Black, or what department do these outside agencies come under?

Mr. FAIRWEATHER: That is under the traffic department, sir.

Mr. WALSH: And the industrial bureau, Mr. Fairweather; they try to secure people who are interested in industrial sites, their duty involves the promotion of business enterprises.

Mr. FAIRWEATHER: Yes, sir. That is a very very important branch of the traffic department.

Mr. WALSH: Could you suggest that they were quite successful last year?

Mr. FAIRWEATHER: I know they were quite successful.

Mr. WALSH: They secured quite a number of industrial plants along your right of way?

Mr. FAIRWEATHER: Yes, sir. As a result of their efforts in 1935 there were 266 new industries placed along the lines of the Canadian National Railways, with a capital investment of \$4,500,000, and the number of employees concerned amounted to 4,000, and the increased traffic earnings were estimated at \$1,300,000.

The CHAIRMAN: Item agreed to. Transportation expenses, page 23.

Mr. HOWARD: Just a minute please. I would like to ask two or three questions. You may not be able to answer them to-day but you may be good enough to get the answers for me. This is in connection with transportation expenses as related to the operations of the Canadian National Railways. You have several branch lines that are running apparently at a deficit. In your accounting do you give any special consideration to traffic originating on the branch line?

Mr. FAIRWEATHER: How do you mean, sir?

Mr. HOWARD: For instance, you charge up expenses on a certain branch, separately from your main line; do you credit that branch with revenues pro rata to the point of take-over, or how do you do it?

Mr. FAIRWEATHER: We keep part of our expenses of subdivisions.

Mr. HOWARD: Right on the subdivision we will suppose that you have an industry, or a certain creator of a large amount of traffic; you charge up your deficit as to operating to your subdivision. We will suppose that on your subdivision you have got only 30 miles; and the traffic goes over your main line system for 1,200 miles. Take a case in fact, take Sorel, and take for instance Palm Oil; in figuring your receipts would you credit that subdivision with 30/1,200 of the revenue if it is a 1,200 mile haul to destination?

Mr. FAIRWEATHER: It all depends, sir. Ordinarily we do not keep revenue and expense accounts for little bits of the system. We do not attempt to keep that, because it would be a very, very expensive thing to do, and it would be of very little value when we did it. But, when it comes to making an economic study of a particular branch line to see whether that branch line was justified, or whether the service on that branch line was justified, then we take the expenses of the subdivision and we take all the revenues that accrue from all traffic moving on and off or over the subdivision. We look at the total revenue in relation to the expenses of the subdivision, and then estimate the additional expenses that would apply to the other portions of the system from the movement of that traffic. For instance, say a car load of oil; we would take the whole revenue of the car load into account and we would charge against that an estimate of the expense of hauling that car on the rest of the system, which of course would be something. For instance, in the applications that we make to the Board of Railway Commissioners for permission to abandon the operation of certain branch lines we credited all the revenue to the branch lines and we debited an estimate of the expenses of the balance of the system; which

for that purpose we placed at 50 per cent. I do not know whether I have made it plain or not. I will attempt to go through it with an illustration which perhaps might make it clear.

Mr. HOWARD: Just stick right to the point. We will suppose that you are hauling that train load, or car load, or unit a distance of 1,000 miles. We will also take it that the line from which you take over, or the branch, is 30 miles. Now, would you credit up to the subdivision $3/100$ of the total freight?

Mr. FAIRWEATHER: For that purpose we would credit the entire revenue to the branch line. Suppose the revenue would be \$200 a car, we would credit the branch line account with \$200 revenue on that car. Now, we would say that in order to do that we had expenses on the branch line, which of course is there; we would say that we had to haul that car a thousand miles or so. If the haul on the branch line was 30 miles and the total haul 1,000 miles we would have to haul that car 970 miles on the balance of the system. Now let us say the cost of hauling was \$85; and we have this revenue of \$200; we would have expenses on our branch line which we might say would be \$70; and we would have \$85 on the balance of the system. That would make total expenses of \$155, leaving out of the total of \$200, a credit to the branch line of \$45 in revenue. That is the way we do. We credit the branch line with everything that it earns, not on a mileage basis but its total earning power.

Hon. Mr. VENIOT: In its development of traffic.

Mr. FAIRWEATHER: In its development of traffic we credit to it every ounce of traffic that moves on it, or off it, or over it.

Mr. HOWARD: After deducting the expenses arising on the balance of the line?

Mr. FAIRWEATHER: Yes, sir.

Mr. HOWARD: In other words, you do in practice exactly what you do on a through rate. Take a through rate that is going over five miles which originated on a certain branch line. The proportion for the branch line would be a good deal higher than for the rest of the route, because the branch line was the originator of the freight.

Mr. FAIRWEATHER: We take that into account; but not only do we do that but we also take in the terminating traffic too.

Mr. HOWARD: Is that the way it is shown in respect to the Quebec, Montreal and Southern, in the 1935 report, appendix A, at page 220? There you show a deficit of so much per year.

Mr. FAIRWEATHER: But, wait a minute. I was talking about an economic study, do you see. What you have in front of you there is the bookkeeping allocation of revenues and expenses; and that is done on a quite different basis.

Mr. HOWARD: That is what I am getting at. That is not a true picture?

Mr. FAIRWEATHER: It is not a true picture. That is quite correct. It is not a true picture of the value of these lines to the Canadian National System, by any manner of means.

Mr. HOWARD: That is the point I was getting at.

Mr. FAIRWEATHER: To make that statement correct you would have to go to work and calculate the value of the interchange traffic and credit it to the operation of each of these lines.

Mr. HOWARD: You don't do that now, but you do do it when you want to establish the paying power of the line.

Mr. FAIRWEATHER: When we have any doubt as to whether a service is paying or not, or whether a branch line should be continued or not we make a thorough study of it.

Mr. HOWARD: It all comes down to this, then; you show to the public that a certain branch line is running so much per year at a deficit to the C.N.R., although it happens to be an originator of traffic that is worth thousands of dollars. You show that, to the public, as operating at a deficit when as a matter of fact it is an asset to the railways.

Mr. FAIRWEATHER: Yes, sir, but I think you will see on the footnote on that table—there should be a footnote on it, because I remember I put it on myself.

Mr. VIEN: Where are you reading from?

Mr. HOWARD: Appendix A, page 220 of last year.

Mr. MORROW: I think, Mr. Howard, the branch line received \$130 of the \$200 freight on that car.

Mr. HOWARD: If you do that, Mr. Morrow, you would not show these figures; you would show a real profit instead of a loss.

Mr. MORROW: I know you are trying to get at what percentage the branch lines get.

Mr. FAIRWEATHER: \$115 would be credited to branch lines.

Mr. MORROW: And \$85 to the main line, the other 970 miles.

Mr. HOWARD: In actual operation.

Mr. MORROW: Yes.

Mr. HOWARD: But in your figures of last year's report that does not show.

Mr. FAIRWEATHER: We tried to bring that into the statement by putting a footnote showing there was that qualification.

Mr. HOWARD: The footnote says: "No figures are available to show the amount of earnings accruing to the system at large arising from traffic originating at or destined to points on the lines in question."

Mr. FAIRWEATHER: That covers the point, sir.

Mr. HOWARD: "The figures shown as relating to the line are approximations based on pro rata figures." You see, pro rata. That is what I am trying to get at. It should be more than pro rata.

Mr. FAIRWEATHER: The statement was asked for and we furnished it with that qualification. It does not show the correct picture.

Mr. HOWARD: That is what I was getting at. In other words, in plain English here is the situation: if you had a piece of line between two points on a small branch line that was carrying practically all passenger traffic and the passenger traffic diminished it would be a non-paying line, but if on that line you had an industry which was giving you 1,000 carloads of freight per year you do not show a true picture; it is an asset to the main line, but it does not show in the tabulated statement on the branch line as a profitable operation.

The committee adjourned to meet at 8 o'clock p.m.

EVENING SITTING

The committee resumed at 8 p.m.

The CHAIRMAN: Mr. Fairweather, will you proceed with dispatching trains.

Mr. FAIRWEATHER: Dispatching trains, station employees, weighing, inspection and demurrage bureaus, coal and ore wharves, station supplies and expenses, yardmasters and yard clerks, yard conductors and brakemen, yard switch and signal tenders, yard enginemen, yard motormen, fuel for yard locomotives, yard switching power produced, yard switching power purchased, water for locomotives, lubricants for yard locomotives, other supplies for yard locomotives,

enginehouse expenses—yard, yard supplies and expenses, operating joint yards and terminals Dr., operating joint yards and terminals, Cr., train enginemmen, train motormen, fuel for train locomotives, train power produced . . .

Hon. Mr. STEWART: Fuel for train locomotives. How much Canadian coal and how much other coal was used?

Mr. VAUGHAN: We purchased for lines in Canada Canadian coal in 1935 to the extent of 2,513,930 tons and coal from the United States 988,346 tons.

Hon. Mr. STEWART: In what areas do you use American coal?

Mr. VAUGHAN: Canadian coal is used as far west as Toronto, and we use United States coal from Toronto as far west as Winnipeg. We use Alberta coal at Winnipeg and points west, and British Columbia coal in British Columbia.

Hon. Mr. STEWART: Has the railway any interest in American mines?

Mr. VAUGHAN: Yes, we own the Rail and River Mines.

Hon. Mr. STEWART: Is it from that mine that you get your coal?

Mr. VAUGHAN: Yes, all the American coal that we use in Canada comes from those mines except a small tonnage of coal which comes in via our Cobourg car ferry. It is used on the fast passenger trains between Toronto and Montreal.

Hon. Mr. STEWART: What is the cost of the American coal compared with the Canadian coal?

Mr. VAUGHAN: The cost of American coal, of course, is cheaper in the territory where it is used.

Mr. YOUNG: Is it cheaper per ton or cheaper to use?

Mr. VAUGHAN: It is cheaper per ton.

Hon. Mr. STEWART: With regard to fuel value, how does it compare?

Mr. VAUGHAN: The fuel value of the American coal is greater than that of Canadian coal.

Mr. HANSON: The American coal is anthracite is it not?

Mr. VAUGHAN: No, bituminous coal.

Mr. ELLIOTT: With regard to superintendence, does that include travelling expenses and so on?

Mr. FAIRWEATHER: Superintendence would include travelling expenses where they were appropriate to the item.

Mr. HANSON: And would it include expenses of the cars too—expenses of the superintendents' cars too, and supplies for the cars; does it include everything?

Mr. FAIRWEATHER: Yes.

Mr. HANSON: It includes everything in connection with the expenses of the superintendent.

Mr. HOWARD: Does the management also come into that item?

Mr. FAIRWEATHER: Into superintendence?

Mr. HOWARD: Yes.

Mr. FAIRWEATHER: Oh, yes. What do you mean by the management?

Mr. HOWARD: I mean your management.

Mr. FAIRWEATHER: Oh, yes, certainly, to the extent it applies to transportation.

Mr. HOWARD: To the extent it applies to transportation.

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: You will have another item to discuss that on—on general expenses on the next page.

Mr. HOWARD: Fine. That is O.K.

Mr. FAIRWEATHER: Train power produced, train power purchased, water for train locomotives, lubricants for train locomotives, other supplies for train locomotives, enginehouse expenses—train, trainmen, train supplies and expenses, operating sleeping cars, signal and interlocker operation, crossing protection, drawbridge operation, telegraph and telephone operation, operating floating equipment, express service, stationery and printing.

Hon. Mr. STEWART: Now, with regard to telegraph and telephone operation, have the board under consideration any consolidation of the telegraph services of the two roads?

Hon. Mr. FULLERTON: At the present time we have come to a standstill; we cannot get any further. There is difficulty about the title of our telegraph facilities. The idea was to establish a new company, to transfer the interests of the two, the C.P.R. and ourselves, to this new company. Our title is subject to certain leases, and under those leases the property is to be handed back to the Montreal Telegraph Company in 1978. Our title is completely defective, and we have not been able to devise any way by which we could bring about amalgamation and so forth. The matter has been submitted to the lawyers both of the C.P.R. and the C.N.R., and they have not been able to work out a theory up to the present time. So we are locked right there.

Mr. FAIRWEATHER: Other expenses, operating joint tracks and facilities Dr., operating joint tracks and facilities, Cr., clearing wrecks, damage to property, damage to live stock on right of way, loss and damage—freight, loss and damage—baggage, injuries to persons.

Mr. HANSON: Express service. Is that paying for itself?

Mr. FAIRWEATHER: The express, sir?

Mr. HANSON: The express service.

Mr. FAIRWEATHER: Oh, yes. That is a paying branch of the railway.

Hon. Mr. STEWART: How about the express services? Is there any consideration of amalgamation of those services or is there any measure of co-operation between the two roads in the handling of the express?

Hon. Mr. FULLERTON: Mr. Hungerford can explain that to you a little better than I can, because it is an operating matter.

Mr. HUNGERFORD: The matter was referred to by the royal commission. The express traffic is very similar to package freight, and with the change in conditions with respect to trucking and highway competition it is felt in some quarters that there might possibly be an amalgamation between the express facilities and the organization that handles the package freight on each railway. The matter is under very careful study now.

Mr. YOUNG: An amalgamation?

Mr. HUNGERFORD: No; but as to whether it would be better to put the package freight activities together with the express service on each road, instead of giving consideration to the amalgamation of the express companies.

The CHAIRMAN: Is the item carried? (Carried.)

The CHAIRMAN: Page 24, miscellaneous operating expenses.

Mr. FAIRWEATHER: Dining and buffet service; restaurants, grain elevators and other miscellaneous operations. Total.

Mr. YOUNG: Is the dining and buffet service one of the losing items on the road?

Mr. FAIRWEATHER: It is certainly not very remunerative.

Hon. Mr. STEWART: There is a difference between "very remunerative" and losing money.

Hon. Mr. FULLERTON: Every railway loses money heavily on dining car services.

Mr. HANSON: What is the expense in connection with the grain elevators? Can you give us that?

Mr. FAIRWEATHER: Those are expenses in connection with the grain elevators that the system owns.

Mr. HANSON: Does the system own some elevators?

Mr. FAIRWEATHER: Oh, yes.

The CHAIRMAN: Is the item carried? (Carried.)

The CHAIRMAN: Page 24, general expenses.

Mr. FAIRWEATHER: Salaries and expenses of general officers; salaries and expenses of clerks and attendants; general office supplies and expenses. . . .

Mr. HOWARD: Under the first item "Salaries and expenses of general officers," is that where the new trustee board comes in?

Mr. FAIRWEATHER: Yes; they would be included in that as an item.

Mr. HOWARD: With your permission, Mr. Chairman I would like to ask Mr. Fullerton two or three questions.

The CHAIRMAN: Very well.

Mr. HOWARD: What do you consider is the legitimate deficit this last year on the C.N.R.?

Hon. Mr. FULLERTON: \$47,000,000.

Mr. HOWARD: In your mind is that a fair way of treating the question?

Hon. Mr. FULLERTON: I think so.

Mr. HOWARD: Just before the close of the House this afternoon the leader of the opposition was very persistent in stating that the deficit on the Canadian National Railways last year was \$115,281,689.79. I was shocked.

Hon. Mr. FULLERTON: He included the \$26,000,000 for special equipment retirements and included the interest on Government money loaned for years back.

Hon. Mr. VENIOT: No. He was asked that question and said No.

Mr. ELLIOTT: Page 18.

Mr. YOUNG: He referred to page 18, the profit and loss statement.

Hon. Mr. VENIOT: Yes, that is the one.

Hon. Mr. FULLERTON: You can reach the \$115,000,000 if you include everything on earth.

Interest on accrued government loans.. . . .	\$35,949,676
Amortization of discount.. . . .	986,998
Depreciation accruals.. . . .	636,449
Obsolete equipment written off.. . . .	24,588,920
Property retired and not replaced.. . . .	4,030,095
Adjustment of land values.. . . .	958,878
Adjustment of depreciation (I.C.C. order No. 5100).. . . .	522,827
Miscellaneous.. . . .	186,377
	<hr/>
	\$67,860,224

That is the difference between \$115,281,000 and \$47,421,000.

Mr. HOWARD: We could increase that if we included the salaries of members of parliament.

Hon. Mr. FULLERTON: Yes.

Mr. HOWARD: But you are convinced that \$47,000,000 is the real deficit for the past twelve months on the C.N.R.?

Hon. Mr. FULLERTON: That is the cash deficit.

Mr. HOWARD: And included in that is this extraordinary retirement put through this year, which was a great deal higher than in any other year.

Hon. Mr. FULLERTON: That is not included.

Mr. HOWARD: The \$29,000,000.

Hon. Mr. FULLERTON: No; that is not in the \$47,000,000. If you look at page 4:—

The amount of cash required on deficit account by the Railway for the calendar year 1935 is \$47,421,464 against \$48,407,900 in the previous year. It should be noted that in the detailed accounts of the Railway submitted herewith, there are included various charges, such as: interest accruals on Government loans, depreciation accruals on lines in the United States, amortization of discount on funded debt, capital losses on physical property retired from service and not replaced, and the book loss resulting from the exceptional program of obsolete equipment retirements. Such charges have been excluded in compiling the cash requirements for the year in accordance with Chapter 17, 1935.

Hon. Mr. HOWE: The leader of the opposition stated very definitely that this is the loss for this year, not an accumulation of losses but the loss for 1935.

Hon. Mr. FULLERTON: If he wants to make it up in that way he can reach the \$115,000,000.

Hon. Mr. HOWE: You do not agree with him?

Hon. Mr. FULLERTON: No.

Hon. Mr. HOWE: You agree that the \$26,000,000 retirement is an accumulation?

Hon. Mr. FULLERTON: In a sense; it should have been spread over a number of years.

Mr. HOWARD: If you take that item from the retirement last year and the few years before and total it all together and divide it by the number of years you would get a lesser figure than that?

Hon. Mr. FULLERTON: Yes. Last year when we first went in there, 1934, we found this obsolete equipment, and my proposal was that we should wipe it out, that it should not exist. However, the matter was delayed and this year we did wipe it out. We thought it was our duty to wipe it out because it had no business being there. The average income loss for thirteen years including Eastern lines is \$28,767,000.

Mr. HOWARD: What page is that?

The CHAIRMAN: Page 26, under receipts and expenditures.

Hon. Mr. FULLERTON: The average for thirteen years including Eastern lines was \$28,767,693.44.

Mr. HOWARD: The total money we voted this year out of the public treasury in cash to the Canadian National Railways was how much?

Hon. Mr. FULLERTON: \$47,000,000 odd.

Mr. HOWARD: Then there is no justification for the figure of \$115,000,000 going out to the public as a deficit.

Hon. Mr. FULLERTON: One is a cash item and the other a book item.

Mr. HOWARD: Of course you could not have a deficit of more than the amount we voted.

Hon. Mr. FULLERTON: A cash deficit.

Hon. Mr. STEWART: Let us assume that you were dealing not with the Dominion government but with a private company with shareholders. You would show the \$115,000,000?

Mr. HOWARD: No.

Hon. Mr. FULLERTON: We would not be in existence. We would be out of existence, I afraid.

Hon. Mr. STEWART: That does not make any difference. You would be making a statement which you would submit to your shareholders before you went out of existence, and you would show \$115,000,000 if you gave them the true picture.

Hon. Mr. FULLERTON: Yes, if you charged the interest on all past indebtedness, past advances, interest and everything that has been accruing for years and years, you would get this large amount.

Hon. Mr. STEWART: Is that not an obligation?

Hon. Mr. FULLERTON: That, presumably, would be good bookkeeping, I suppose.

Mr. HOWARD: Take Mr. Stewart's exact question: At the end of your year, if you did not have the government to back you, you would have to go into the market with a bond issue to supply the necessary cash to continue?

Hon. Mr. FULLERTON: Quite so.

Mr. HOWARD: To what extent would you have to issue bonds for last year?

Hon. Mr. FULLERTON: \$47,000,000.

Hon. Mr. STEWART: How would you pay the interest you owed the other creditors?

Mr. HANSON: The interest is included in this.

Hon. Mr. VENIOT: Is not all interest included in that except the interest due the government?

The CHAIRMAN: The interest owing to the public.

Hon. Mr. STEWART: But not the interest to the Dominion.

Mr. HOWARD: Mr. Fullerton, the tax-payers of Canada have been making up deficits and advancing money for capital expenditure and this, that and the other thing for building up our country; do you think it would be a legitimate charge to charge up the interest on that any more than it would be to charge interest on a grant to agriculture.

Hon. Mr. FULLERTON: I certainly do not. That is one of our main objects in trying to get re-capitalization, trying to get some of this old dead wood out.

Hon. Mr. VENIOT: What is the interest due the public?

Hon. Mr. FULLERTON: This year it was \$53,468,000.

Hon. Mr. VENIOT: Is that not a surplus of about \$7,000,000?

Hon. Mr. FULLERTON: Yes, we have a surplus available of about \$5,000,000.

Hon. Mr. HOWE: Would you tell us about this item called "Interest on Dominion Government Loan"? What rate of interest is charged?

Hon. Mr. FULLERTON: If you look at page 29, Mr. Howe, that will give you the different bond issues and the interest paid. It is mostly 6 per cent. You will see 6 per cent, 6 per cent, and 5 per cent. It certainly does not cost the government 6 per cent for money.

Mr. HOWARD: Not now.

Mr. YOUNG: In any event, it would not be correct to say that this amount of \$115,000,000 under any circumstances would be the deficit for this one year? Some of these items represent a sort of heaped up deficit?

Hon. Mr. FULLERTON: Some people like to pile them up and make them as bad as possible.

Hon. Mr. VENIOT: 90 per cent of the loan pays 6 per cent, or about that, to the government.

Hon. Mr. STEWART: Speaking about obsolete equipment and the heavy charge this year in respect to it, it follows that if it had been charged up in other years the deficit would have been greater in years gone by?

Hon. Mr. FULLERTON: That is perfectly true.

Hon. Mr. STEWART: It would have been greater in other years?

Hon. Mr. FULLERTON: That is perfectly true.

Hon. Mr. HOWE: In other words, it is a cumulative deficit.

Hon. Mr. STEWART: Why was it not written off in other years, just to make things look better than they really were?

Mr. MAYBANK: In what years was that, for a number of years?

Hon. Mr. FULLERTON: A number of years. Mr. Hungerford explained that this morning as to why this large amount was not written off before.

Hon. Mr. HOWE: Inasmuch as the subject has been raised in parliament, it would be just as well if Mr. Hungerford would go through this profit and loss statement and give us a clear picture of the position.

Hon. Mr. FULLERTON: I think Mr. Cooper could give you that.

The CHAIRMAN: Is it on page 26, the receipts and expenditures?

Hon. Mr. HOWE: I was interested in page 18, in view of the fact that the question has been raised.

The CHAIRMAN: All right, we will go back to page 18 and deal with the profit and loss statements. Will you deal with that, Mr. Cooper?

Mr. COOPER: What is the question?

Hon. Mr. HOWE: I was interested in an explanation of this profit and loss statement. It has been raised in parliament, and we might as well understand it in committee so that if it is raised again we can discuss it.

Mr. COOPER: On the opposite page, 19, is what is called the "Income Statement." The Income Statement sets out the normal transactions of the company for the year 1935. Anything of an abnormal nature is taken up through the profit and loss statement. The purpose of the two statements is to try to get into the income statement what would be the normal income result of the various transactions that are applicable to the year itself. For instance, this item of equipment retirement is considered an abnormal item. It is not normal in any way, and if it were included in the income statement or in the operating expenses it would distort those figures. The accounting plan which we follow is designed to take up abnormal items through the profit and loss statement. That is what we have done.

Hon. Mr. FULLERTON: Do you want an explanation of the different items in this profit and loss statement?

Hon. Mr. HOWE: Yes.

Mr. COOPER: The first item is "Credits from retired Road and Equipment." These are profits on small pieces of property that have been sold. The amount represents the sale price in excess of cost.

Hon. Mr. STEWART: There is a greater amount than last year?

Hon. Mr. FULLERTON: Yes, it is nearly double.

Hon. Mr. STEWART: How does it come to be more this year?

Mr. COOPER: It would depend particularly on what land sales we might have. The land sales do not balance one year with another.

Hon. Mr. STEWART: Would you consider that figure abnormal with the knowledge of the history of the previous year, \$24,000 against \$13,000?

Mr. COOPER: Perhaps the word "abnormal" is not applicable there. It is not an operating transaction. It is more of a capital transaction. We have sold some capital assets in excess of their costs, and the proper accounting for the excess is to deal with it in this account.

Mr. MAYBANK: About how many items are represented in that figure of \$24,000?

Mr. COOPER: Well, I do not know, sir. We have them grouped here as items under \$500. There are three items in excess of \$500.

Mr. MAYBANK: There are three items in excess of \$500?

Mr. COOPER: Yes.

Mr. MAYBANK: There is a large number of small items making up this figure?

Mr. COOPER: Yes.

Mr. MAYBANK: What is the nature of those items? Mention a few of them.

Mr. COOPER: The first item here is the sale of property to the Department of Public Works for the site of the new postal terminal. We sold the property to the Department for a small amount in excess of what it cost us.

Mr. HOWARD: You would call that practically swopping dollars?

Hon. Mr. STEWART: No, I do not think you would call it swopping dollars, it is getting dollars.

Mr. MAYBANK: You are referring to a piece of land that was sold to the government for a post office site. How much was the sale price?

Mr. COOPER: I do not know, sir. I know the difference in the sale price against the cost was \$13,000.

Mr. MAYBANK: The difference between the cost and the sale price was \$13,000?

Mr. COOPER: Yes, and the \$13,000 is part of the \$24,000.

Mr. MAYBANK: Then everyone of the items that go to make up the amount of \$24,000 recorded here is an increased increment, or whatever it might be?

Mr. COOPER: Excess of the sale price over cost.

Mr. HOWARD: If you take that one item out of the twenty-four, thirteen from twenty-four would leave you eleven.

Mr. COOPER: Yes.

Mr. HOWARD: That makes it really less than last year.

Mr. MAYBANK: Aside from that particular windfall this would appear to be equal to the situation last year.

Mr. COOPER: Yes. The next item, unrefundable overcharges, represents amounts due to shippers where the billing has been in excess of the tariff rate. We make it a practice to go over all our billing when the bills come into the revenue office and if we find that an agent has made an error, that he has overcharged the shipper, we make a refund; but in some cases where the shipper cannot be located we have to write the credit off. That is what this item is.

Donations, \$30,328.73: This represents property which is paid for by others, principally for traders, sidings where the property is on the railway right of way and the title to the property is considered as resting in the railway company. We set the value up on the one hand as a charge to investment account, and necessarily the contra item as it is not related to operations is considered a profit on capital account. It is taken care of through this account here.

The CHAIRMAN: Is the rental of these sidings included in that, or is that just capital account?

Mr. COOPER: That is just the value of the property which comes to the railway company and which is paid for by others.

Mr. MAYBANK: Why did you hit on the word donations for that?

Mr. COOPER: We did not hit on it, sir. We followed the I.C.C. and the Dominion classification and that is how they describe it.

Mr. HOWARD: I don't just get it yet. Supposing you put in the proper siding, such as ones I pay for on the C.N.R.; I pay for the ties, for the grading of the property and all that, and when I pay you \$250 a year for the use of the siding. Where do you get a donation out of that?

Mr. COOPER: In some cases we might ask you to pay for the switch on the railway right of way. If you did we would consider that we owned that switch because it was part of our main line.

Mr. HOWARD: And you charged that up against it. It would be a donation because you would not get any revenue for it.

Mr. COOPER: The item is an addition to the property account, and is offset by credit to profit and loss on the other hand.

The CHAIRMAN: It is compound accounting.

Mr. HOWARD: This is a new one. Don't you think it would be a much better way if you were to show it in your revenue account and leave out the donation stuff.

Mr. COOPER: You would, as far as rental is concerned, but you must distinguish between items of a capital nature and items of income nature.

Hon. Mr. STEWART: I suppose you have some warehouses and buildings of that type on your property which would be in that?

Mr. COOPER: In Port Huron, when we proposed to build a car shed, a car repair shop, the citizens of Port Huron donated the land for the purpose to the railway company. Now, the Interstate Commerce Commission would require that the value of the land be set up in the property account; and, of course, there must be an off-setting item, that is treated as a donation. It is a donation. It is something given to the company.

Mr. HOWARD: That is a clear donation. There is no question about that.

Mr. HANSON: Yes, that is clear enough.

Mr. COOPER: Miscellaneous credits, as the name indicates, are items of a miscellaneous nature. I could give you the character of them: Profit on the redemption of 2 per cent guaranteed stock; profit on the Saint John and Quebec 4 per cent debenture stock redeemed through sinking fund; dividends received from liquidation proceedings after investment had been written off; recovery from disposal of salvage of Toronto Suburban railway in excess of amount of estimated salvage that was written off; and items of that nature.

Debits: Surplus appropriated for investment in physical property: That in turn relates to the item of donations, the amount of \$2,064.34 is for the United States lines. Again, the I.C.C. classification requires with respect to donations in property that we should make an appropriation of such items in order to keep them out of the free surplus account.

Debt discount extinguished through surplus: In some cases for our sinking fund purposes we buy in our own securities. If the securities were issued at a discount, when they are re-acquired any of the unextinguished discount must be written off.

Debits for retired road and equipment: This includes the item of obsolete equipment amounting to \$24,000,000; and the other principal items represent branch lines which have been abandoned and dismantled.

Mr. WALSH: In that amount of \$29,000,000; will you go back to the report of the board on page 11, retirement of equipment \$23,000,000. That \$23,000,000 is not shown later, further down on that same page. Is the item retirement 1935 \$5,500,000? Going back to page 19 again, railway operating expenses \$158,000,000; that \$5,500,000 appears in there I presume?

Mr. COOPER: Yes.

Mr. WALSH: But that \$23,000,000 has never appeared in the income statement.

Mr. COOPER: That is correct.

Mr. WALSH: Does not that give a tendency to show the net loss lower than it would be if that equipment had been retired from year to year; or, if you are retiring that equipment amounting to \$23,000,000 in 1935 why should it not appear on page 19 of the income statement? Why should it go direct to the profit and loss account without going through the income statement?

Mr. COOPER: Well, if this retirement of equipment had been on all fours with the equipment which is retired from year to year, yes; then the income statement has been understated from year to year. If you like you could spread that over 20 years because, undoubtedly, the equipment must have been in service for more than that time. You might say that roughly a million dollars could have been included in the income statement. But, our position on that, as has been explained, is that this equipment was retired under abnormal conditions, and it is not in the same category as yearly retirements which take place because equipment is worn out. This equipment was retired because of special conditions pertaining to the depression, interchange arrangements—discontinuance of service on light traffic lines and the incidence of obsolescence as distinguished from depreciation. Also, the principle involved was threshed out before the accounting officials of the Interstate Commerce Commission, as the use of the profit and loss account in these cases must receive their approval in so far as our U.S. lines are concerned. It seems reasonable to carry the same principle into effect on the Canadian lines.

Mr. WALSH: None of this \$23,000,000 was charged to the American lines at all?

Mr. COOPER: No. But in the previous year we had a similar equipment retirement program on the Grand Trunk Western. We submitted the facts to the Interstate Commerce Commission, and they authorized the use of the profit and loss account. In 1935 we extended the same principle into our Canadian line accounting.

Mr. WALSH: My feeling is, and in fact my contention is, that the net income deficit as shown on page 19 for the year 1935—48 million odd, close to 49 million—should be increased by this \$23,238,000, showing actually over \$70,000,000.

Mr. COOPER: Then you do not accept my line of reasoning?

Mr. WALSH: I accept your suggestion, but I feel that ever since the year 1921 or 1923 there has not been charged against this account a sufficient amount; that there has not been a sufficient amount charged against the retirements; that there have not been the debits for the retirement of lines, equipment and so on that there should have been. For instance, away back in 1923 I think it was only the amount of \$1,000,000. Then it gradually increased right down to 1930, though it did not need too more than, I presume, one and a half per cent at the outside. I think your feeling is, and I think the feeling of the railway officials would be, that it should measure up to about 3 per cent of the \$4,000,000. I feel that this \$23,000,000, close to \$24,000,000, which is being wished on us this year, 1935, is not being shown; and this is due principally to the fact that for years gone by a sufficient amount has not been charged against retirements. Is that a correct statement, or would you say that my line of argument was quite incorrect?

Mr. COOPER: You are correct in part, Mr. Walsh. But Mr. Hungerford this morning explained that in the years from 1923 to 1930 at any rate, the railway did absorb a very considerable expenditure for the rebuilding of equipment which we treated through the operating expense account.

Mr. HUNGERFORD: We retired all the equipment that was worn out each year.

Mr. HOWARD: Suppose you had treated this 1935 the same as 1934. In 1934 that item is \$1,290,194. Suppose that item this year had been \$2,000,000. Following the same rules that you have followed for years, then your total debits down there would have been \$27,000,000 less, or it would have left \$3,000,000?

Mr. COOPER: Yes. That is correct.

Mr. HOWARD: That, added to your income deficit, would be your actual, real, genuine deficit. Is not that so?

Mr. COOPER: No. I think you would, in that case, deduct the \$27,000,000 from the \$115,000,000.

Mr. HOWARD: Oh, no.

Mr. COOPER: That is, assuming you are going to accept all the other charges such as interest on government loans and items of that nature.

The CHAIRMAN: You must accept the evidence.

Mr. HOWARD: Surely you are not going to accept interest on government advances?

Mr. COOPER: No. But you were saying if the 29 had been 2.

Mr. HOWARD: Yes.

Mr. COOPER: How would 1935 have compared with 1934?

Mr. HOWARD: That is so.

Mr. COOPER: In 1934 the system loss, as shown in the profit and loss statement, is \$89,000,000. Then if the 29 had been 2, 1935 would have been \$88,000,000.

Mr. HOWARD: Yes; if you leave out all the interest on Dominion loans in both cases, you will have 53 in the one case and 51 in the other.

Mr. COOPER: That is so. And then you must, I feel, also deduct items such as the permanent retirement of branch lines.

Mr. HOWARD: Sure.

Mr. COOPER: You take up a line that costs a million dollars because it is of no further use. You scrap it. That is not an operating expense; the loss is not.

Mr. HOWARD: No.

Mr. COOPER: It is a retirement of your capital assets. And this is the only place through which such items can properly be accounted for.

Mr. HOWARD: Right.

Mr. WALSH: Why not put the \$5,500,000 in the same way, and then it would have shown the net income deficit less than \$48,000,000?

Mr. COOPER: Because the equipment which is retired in the normal process is renewed; and property which is renewed is taken care of through the operating account.

Mr. HOWARD: Sure.

Mr. COOPER: Renewals and retirements are operating expenses.

Mr. WALSH: These 16,000 odd units are not going to be replaced. Is that the idea?

Mr. COOPER: No.

Mr. WALSH: They are special retirements not to be replaced.

Mr. COOPER: Mr. Walsh, in the 1934 report, on page 10, the facts regarding that program were set out. There was also a special pamphlet prepared. A copy of the report which the President submitted to the Trustees was distributed to the members of the committee. I do not know whether you have copies of that or not.

Hon. Mr. FULLERTON: I have copies.

Mr. COOPER: All the facts are set out there.

Mr. BOTHWELL: The items should really have been written off in 1934 instead of last year?

Mr. COOPER: I beg your pardon?

Mr. BOTHWELL: The items should have been written off possibly in 1934, or might just as well have been?

Mr. COOPER: Well, it was recommended by the President in 1934, but the authority to dismantle the equipment was not given by the Trustees until this year; and the actual dismantlement did not take place until this year. That is why it comes in the 1935 statement.

Mr. HOWARD: What is the total taxes the C.N.R. paid during the last year?

Mr. BOTHWELL: Why not complete this statement?

Mr. HOWARD: O.K.

Mr. BOTHWELL: Would it not be better to complete this profit and loss statement, Mr. Chairman?

The CHAIRMAN: Well, I am just waiting. If we are through with this, we can go on.

Mr. COOPER: The total of all taxes paid in the year 1935—that does not include sales tax because sales tax is considered a part of the cost of material—was \$6,044,175.

Mr. HOWARD: That is some contribution.

The CHAIRMAN: Go on with the profit and loss statement.

Mr. HOWARD: That is a lot of money.

Mr. WALSH: Coming back to the \$23,000,000 again, that would not be considered irregular by any business man or business corporation? That is the way it would be done in ordinary business?

Mr. COOPER: You mean—?

Mr. WALSH: I am looking for information. I quite frankly acknowledge I am quit dumb on these things. I want to be enlightened.

Mr. COOPER: Do you mean is the way we treat it the way it would be done in ordinary business?

Mr. WALSH: Yes. Would an ordinary business man, getting this statement and noticing these two items going through in that way, try to suggest or characterize that as an effort to camouflage the actual loss on the operation of the railway?

Mr. COOPER: Not if they knew the facts and if they understood the railway accounting.

Mr. WALSH: The officials of any other railway would not make the suggestion that you were trying to show a smaller net income deficit by charging through a special item of this nature on profit and loss?

Mr. COOPER: I think that is answered by my reference to the Interstate Commerce Commission. We were not alone. A lot of railways were faced with this abnormal situation.

Mr. WALSH: And they handled it in the same way?

Mr. COOPER: And they go to the Commission, because the Commission is the body appointed to consider and give rulings on this kind of subject.

Mr. WALSH: Yes. In railway practice it is not considered abnormal at all?

Mr. COOPER: No, it is not. Miscellaneous debits, \$1,938,000. They are of a miscellaneous nature. I can give you some of the items if you want them.

Hon. Mr. STEWART: I thought you were going right through them.

Hon. Mr. HOWE: I should like some explanation of the debt to the government.

Mr. COOPER: Yes, sir.

Hon. Mr. STEWART: On page 18 we find a statement of the system's net loss which is \$115,281,689.79.

Mr. COOPER: Yes.

The CHAIRMAN: Which includes interest.

Mr. COOPER: That is the bookkeeping loss, taking into account these non cash items, capital write-offs, government interest and other abnormal items.

Mr. WALSH: To all intents and purposes it was almost what it was in 1934 except for the extraordinary item under retirement.

Mr. COOPER: Yes, Mr. Walsh.

Mr. WALSH: Practically the same.

Mr. COOPER: Now, the net of the profit and loss items is \$30,453,831; to that is added deficit on income account shown on page 19, \$48,878,181. Then, we have interest on government loans \$35,949,676, making up a total of \$115,000,000. The detail of interest on government loans is set out on page 29. These are the loans which the Dominion has made to the companies now comprising the Canadian National Railways. They go back to the beginning. As was pointed out, the interest rate is very high. It is 6 per cent on practically the greater part of the total; and in part it is interest on loans for deficits against which we have no assets, therefore we have no earning power against this charge.

Hon. Mr. VENIOT: Where do you get your authority for charging up to this account 6 per cent?

Mr. COOPER: All contained in the statutes as fixed by order in council.

Hon. Mr. STEWART: Away back in 1923 or 1924?

Hon. Mr. VENIOT: I am pretty sure that the government borrowed this money and loaned it to the railway at a time when they were not paying 6 per cent.

Hon. Mr. STEWART: I notice, Mr. Veniot in the year 1934 a 6 per cent loan vote, 139. Probably they were paying that rate at that time.

Mr. COOPER: The practice of paying 6 per cent in my opinion commenced when these roads were owned by other than the government. The government was stepping in here before the shareholders or the minority interests, and there was no reason why the government should be generous. But since ownership passed to the government, the situation is changed, and apart from whether interest should or should not be charged, certainly the rate is excessive.

Hon. Mr. STEWART: You have it in here but you are not paying on it?

Mr. COOPER: No, sir, but when it is claimed that the deficit is properly chargeable with that item, I think the position is stated unfairly as far as the railway is concerned.

Mr. HANSON: It should be written off and forgotten.

Mr. HOWARD: Has not there been an attempt during the last two years to try to make some arrangement to place this debt on a lower interest rate?

Mr. COOPER: It has been called to the attention of the government, yes.

Hon. Mr. VENIOT: In the conversion loan of two or three years ago, there was nothing for the C.N.R. included?

Mr. COOPER: I do not know anything about that.

Hon. Mr. VENIOT: Have you had that information?

The CHAIRMAN: Are there any further questions on the loans from the Dominion of Canada?

Hon. Mr. HOWE: In regard to these loan votes, are they chiefly for the deficit for the current year? I notice one in every year starting with 1911. Does that mean the deficits in each year have been capitalized?

Mr. COOPER: When the loans were made to the old companies they would probably include whatever deficit there might be; but it would also include capital expenditures.

Hon. Mr. STEWART: It is to be noted there is a progressive reduction in the rate of interest from 1932 on. In 1933 it was $4\frac{3}{4}$ per cent; in 1934, $4\frac{1}{2}$ per cent; 1935, 4 per cent—1934 it shows it was $3\frac{1}{2}$ per cent loan chapter 28; 1934 nearly $3\frac{1}{2}$.

Mr. BOTHWELL: There has been a reduction since 1933 as well?

Hon. Mr. STEWART: Yes.

Mr. YOUNG: Money is cheaper, that is all.

Hon. Mr. STEWART: That was the current going rate, I suppose, at the time the loan was made; that is all.

Hon. Mr. HOWE: I have a break-down here which is very interesting. It shows capital expenditure loans \$249,000,000; debt redemption \$119,000,000; for deficits \$282,000,000; deficits capitalized and working capital loaned to the road, \$282,000,000.

Mr. MAYBANK: What was the figure of the total of the deficits you gave from the break-down?

Hon. Mr. HOWE: \$282,000,000 loans for deficits.

Hon. Mr. STEWART: Since when, Mr. Howe?

Hon. Mr. HOWE: Since 1911.

Mr. VIEN: Where can that be found?

Hon. Mr. HOWE: It is a break-down I have here in a book made up in the department, and I presume it is correct.

Hon. Mr. STEWART: That includes the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific.

Mr. MAYBANK: How many separate items are in that deficit?

Hon. Mr. STEWART: One every year.

Mr. MAYBANK: The minister has been referring to the fact that there has been one every year.

Hon. Mr. STEWART: Since we took it over.

Mr. COOPER: Loans were made to the Separate corporations Canadian Northern and the Grand Trunk Pacific. There will probably be one to each of them; but since the Canadian National was consolidated there would be only the one.

Mr. MAYBANK: Have you worked out at any time the total amount of interest that has been paid on those deficits?

Hon. Mr. STEWART: None has been paid at all.

Mr. MAYBANK: It is of some importance.

Mr. COOPER: The amount that is charged up but unpaid is \$495,030,137.29.

Mr. VIEN: That is found on what page?

Mr. COOPER: Page 17.

Mr. YOUNG: What is the amount?

Mr. COOPER: \$495,000,000.

Mr. MAYBANK: So the railway on paper is worse off by the figure you have mentioned by reason of interest charged on deficits?

Mr. COOPER: How do you mean "worse off"?

Mr. MAYBANK: It is shown that the railway owes the sum of money for interest which you have mentioned.

Mr. COOPER: But it is all charged in in our financial statement; the full liability is set out.

Mr. MAYBANK: Yes, I know. My point is this: I am merely endeavouring to recapitulate what you say. We appear as a railway to be worse off by the amount you mentioned, which is some \$400,000,000 odd.

Mr. COOPER: \$495,000,000.

Mr. MAYBANK: By reason of the fact that interest has been charged year by year against those deficits.

Mr. COOPER: Yes.

Mr. HOWARD: Certainly.

Mr. MAYBANK: I am trying to see if the idea I had was right.

Mr. COOPER: Yes.

Mr. HOWARD: Certainly.

Mr. COOPER: I did not understand your question.

Mr. VIEN: Look at that item on page 27 on the funded debt, "Principle and interest guaranteed by the Dominion government." Are there included the obligations to the public and the obligations held by the government, or are there loans from the Dominion government excluded from that statement?

Mr. COOPER: Yes. The loans from the Dominion are excluded from the items appearing on pages 27 and 28.

Mr. VIEN: And they are shown where?

Mr. COOPER: On page 29.

Mr. VIEN: Is there anywhere shown the total funded debt both to the public and to the government?

Mr. COOPER: Yes. It is set up on the balance sheet, page 17.

Mr. VIEN: I see on page 14 a tabulation there, "income deficit after payment of interest on funded debt"—a comparison on five year averages during the period of 1927 to 1930 and then 1931 to 1935. Of course, that would be exclusive of the interest due to the government would it not?

Mr. COOPER: Yes.

Mr. VIEN: Have you figures for what it would be, inclusive of the interest due to the government?

Mr. COOPER: It would be about \$35,000,000 more than—

Mr. VIEN: Have you the exact figures tabulated somewhere?

Mr. MORROW: I can give you it for thirteen years—1923 to 1935 inclusive—\$435,514,375.

Mr. VIEN: It would have been interesting to have these five-year periods with the income deficit after paying of interest on funded debt to the public and on funded debt to the government.

Mr. COOPER: I can give you that to-morrow.

Mr. VIEN: I shall be pleased to have it.

Mr. MORROW: May I refer to the question of retirements and depreciation?

Mr. YOUNG: Before you do that, I would like to ask one question here. About how much do you estimate there is charged against the Canadian National Railways which is more or less fictitious—or put it the other way, against which there are really no assets?

Mr. COOPER: In the balance sheet?

Mr. YOUNG: Against the railways.

Mr. COOPER: Are you talking of the amounts included on the liability side of the sheet?

Mr. YOUNG: About how much with all those accumulations which have gone?

Mr. COOPER: About one billion dollars.

Mr. VIEN: You understand what I want?

Mr. COOPER: Yes.

Hon. Mr. STEWART: Just to finish that. It is not correct, is it, to describe that as fictitious; it represents actual cash?

Mr. COOPER: No, sir. The question was what amount is included which is not represented by assets.

Hon. Mr. STEWART: Mr. Young mentioned the word "fictitious."

Mr. YOUNG: Perhaps I should put it the other way.

Mr. VIEN: Now, with regard to interest due to the government, I would like to know where in this annual report the interest due to the government is shown. Is it shown anywhere?

Mr. COOPER: The interest for the year?

Mr. VIEN: Yes, for the year.

Mr. COOPER: It is shown on page 29—the interest for the year.

The CHAIRMAN: Accrued interest for 1935, \$35,949,676. That is shown on page 29.

Mr. MORROW: As was said the other day, there is the difference between depreciation and capital retirement. Now, the figures from 1923 to 1935 inclusive show that the total capital expenditure amounted to \$647,000,000, and the capital retirement for thirteen years amounted to \$186,000,000, leaving a net of \$461,000,000. There capital expenditure was in excess of our capital retirement, and on that basis I think you will find that the retirement is not sufficient to retire your road and your equipment over a given number of years. Now, that is the total of both the road and the equipment. If you go back to the amount of the road you will find the road retirement for last year was \$5,770,000 and the equipment retirement \$6,456,000, making a total of about \$12,000,000; so that here are thirteen years that you have set up of capital expenditure and capital retirement, and it is about over three times as much for expenditure as it was for retirement.

Mr. BOTHWELL: Do you agree with the statement made by Mr. Hungerford this morning that between 1923 and 1930 the equipment retired was all taken care of?

Mr. MORROW: The figures taken over the thirteen-year annual statement—

Mr. BOTHWELL: I think that was the statement made by Mr. Hungerford this morning.

Mr. MORROW: I do not think that was quite the statement Mr. Hungerford made.

Hon. Mr. STEWART: Let us get an answer to that question.

Mr. HUNGERFORD: When we were speaking this morning we were talking entirely of the equipment retired, but this is a much broader question. Mr. Morrow has replied about the increase in capital expenditure on the investment account.

Mr. MORROW: I will give you the equipment retired and equipment purchased. Additions and betterments for thirteen years amounted to \$177,000,000, and the retirement for the same thirteen years amounted to \$61,000,000, which is about one-third.

Mr. YOUNG: I understand that in addition to that year by year you improve some. Is that charged up to operating account?

Mr. HUNGERFORD: To a certain extent; but, of course, there was a large increase in capital. These properties at the beginning of the period under discussion were incomplete in many particulars and very badly run down properties, and a great deal of money had to be spent to co-ordinate these roads and we have had to take time to complete them in some instances and altogether rehabilitate them and re-equip them. That could not possibly have been taken care of out of operating expenses during that period because it was a situation that existed at the beginning of the period. We did not have a complete machine at that time; it was not properly equipped; it was not in proper operating condition: and it took a lot of money and a lot of work to make it so.

Mr. YOUNG: My point was that in addition to that retirement there you also, year by year, had spent an amount of money on operating account to keep the equipment up, so it is not entirely taken care of by that retirement account because constantly it is being repaired and kept up to date.

Mr. MORROW: It says "equipment purchased and additions and betterments."

Mr. BOTHWELL: As I understood the situation this morning the equipment retirements between 1923 and 1930 were all taken care of, but owing to abnormal conditions and so on since that time you had an accumulation of \$23,000,000 which the board of trustees recommended should have been written off in 1934. Is that a correct statement?

Mr. HUNGERFORD: Yes.

Mr. VIEN: But there remains the factor that the retirement as presently carried would not give a true picture of the net surplus in operating expenses inasmuch as this retirement is not equivalent or sufficient to take care of a proper depreciation ratio, and if a proper depreciation ratio was shown as part of the operating expenses the net results would be different.

Mr. HUNGERFORD: I do not know, Colonel Vien, what a proper depreciation charge is. It is a guess on anybody's part.

Mr. HOWARD: Would it not depend a great deal on your capital structure?

Mr. MORROW: The government sets out the figures each year that you are allowed to depreciate plant and equipment, in an ordinary business.

Mr. HOWARD: And if your capital is what it should be your depreciation will be less and your rates higher.

Mr. MORROW: Yes. There is no doubt that the Canadian National Railway is on the books at an excessive figure, and if you would write it down at \$700,000,000 or \$800,000,000 the proper amount of depreciation would be 3 per cent or 4 per cent on your equipment and $1\frac{1}{2}$ per cent to 2 per cent on your road, which over a period of years would put you into a position to take out of your depreciation account the amount required for renewals, etc., rather than out of profit and loss account.

Mr. VIEN: Is the operating ratio given somewhere in the annual report?

Mr. COOPER: It is shown in the last figures on page 37.

Mr. VIEN: I would like to have the operating ratio for the last five years as compared with the same period from 1926 to 1930. If you take, for instance, from 1926 to 1935, both years inclusive, and give the operating ratios.

Mr. COOPER: The figures are:—

Year	Operating Ratio Per cent
1926..	82·47
1927..	85·10
1928..	82·05
1929..	85·38
1930..	91·17
1931..	99·41
1932..	96·34
1933..	96·16
1934..	91·14
1935..	91·77

Mr. HUNGERFORD: I think you will observe, Colonel Vien, that as the business and revenues of the company went up the operating ratio went down, and inversely as the revenues went down the operating ratio went up.

Mr. VIEN: I would like to know why it would not be possible to bring down that operating ratio.

Mr. YOUNG: Get more business and you can do so.

Hon. Mr. FULLERTON: If we can get revenue enough we can do it.

Mr. VIEN: But even during the best years it would seem that the operating ratio of the C.N.R. was above the operating ratio of the C.P.R. Is that the fact?

Mr. FAIRWEATHER: There is a very good explanation for that, sir. The operating ratio of a railway property is, of course, the ratio of its expenses to its revenue. And when you start to compare the operating ratios of two systems you have to be sure that you are comparing similar things, otherwise the comparison of ratios does not mean very much. Now, when you compare the operating ratio of the Canadian Pacific Railway with that of the Canadian National Railway you find that there are several points of major difference between the two systems that have a profound effect on the operating ratio and which has, let us say, no relation to the comparability of those operating ratios. In the first place, the Canadian Pacific Railway and the Canadian National Railway do not keep their accounts in the same manner. The Canadian National Railway includes its gross express and telegraph revenues in its gross revenues and it includes its express and telegraph expenses in its operating expenses. The Canadian Pacific Railway does not handle those amounts in that way. The Canadian Pacific Railway treats commercial express revenues and commercial telegraph revenues as an item of special income and excludes it from their operating statement. Then there are very considerable differences between the properties. Those differences that have a distinct effect upon the operating ratio are matters that are well known to people who are analysts of railway accounts. For instance, the Canadian Pacific Railway has a greater density of traffic. Mr. Hungerford has already referred to the fact that when the operating revenues go up the operating ratio goes down automatically, if your property is well managed. The Canadian Pacific Railway has more revenue per mile of line than the Canadian National Railway, and that has an effect upon the operating ratios. Then the Canadian Pacific Railway by reason of the fact that it is more an agrarian road than the Canadian National Railway has a longer haul on the traffic that it originates, and that means that it has less terminal expense, and of course, as everybody knows, once you get the traffic rolling on a railway the cost of keeping it moving is a great deal less than the cost of initiating it and terminating it. In addition to that the Canadian National Railway has managerial problems that the Canadian Pacific

Railway has not. The Canadian National Railway was an assemblage of lines built to compete with each other and to a considerable extent were redundant. The Canadian Pacific Railway was built and developed as a unit. That means, as far as the Canadian National Railway is concerned, that you have to maintain and operate those redundant facilities. Then you have more shops—which have already been referred to, than you need, more round-houses than you really need, more terminals than you need, and you have to keep on operating these because they are part and parcel of the property, but they add to the managerial problems.

Mr. VIEN: Why should you keep them on if they are not necessary?

Mr. FAIRWEATHER: They are part of the service. You cannot operate without them. For instance, in Winnipeg you have two shops. You have one at Fort Rouge and one at Transcona, the one belonging to the Canadian Northern and the other belonging to the Grand Trunk Pacific. In that particular case you are tied up with agreements that you have to operate the shop, unless you break your agreement. The Canadian Northern had an agreement with the city of Winnipeg which required the operation of its shop at Fort Rouge.

Mr. VIEN: These agreements are not binding?

Mr. FAIRWEATHER: I do not know as to that.

Mr. VIEN: I have seen a number of occasions when agreements were set aside without any difficulty whatever.

Hon. Mr. FULLERTON: I wonder what would happen if we proposed closing up the Fort Rouge shops.

Mr. VIEN: What happened at Nicolet when they dropped the branch line? The railway company was under contract with the city of Nicolet and the Board of Railway Commissioners, under the very distinguished leadership of the present chairman of the Board of Trustees, closed the branch line without any reference or without any difficulty whatever. In that case there was this particular feature; that the city of Nicolet had invested \$10,000 to ensure that this branch would be operated, and notwithstanding that the branch line was closed and the Board of Railway Commissioners directed that the agreement should be set aside, and I wonder if it would be more difficult to do that elsewhere.

Mr. FERLAND: I think my friend refers to Joliette.

Mr. VIEN: No, Nicolet.

Mr. FERLAND: We were in the same position in Joliette.

Mr. VIEN: I appeared before the board on that occasion.

Mr. FERLAND: In connection with Joliette, the company received a bonus of \$10,000, and now you do not follow that contract.

Hon. Mr. FULLERTON: That is perfectly true.

Mr. FERLAND: What we want is to have repairs made at Joliette on cars that are passing through Joliette.

Mr. HUNGERFORD: We have succeeded in getting rid of a good many of those redundant facilities.

Mr. VIEN: Under Section 35 the Board of Railway Commissioners has the power to consider an agreement and to set it aside with respect to anything concerning the operation of a railway. It was under that section that the distinguished chairman of the Board of Trustees acted.

Hon. Mr. FULLERTON: I was not thinking of the legal difficulty at all, I was thinking of something else. Mr. Maybank will tell you how well pleased he would be to have those shops closed.

Mr. MAYBANK: I was going to ask a few questions along that line, but I was wondering if you had finished your recitation of the difference between the two railroads comparing the operating ratio.

Mr. FAIRWEATHER: I have compared the operating ratios of the Canadian National and Canadian Pacific system for the lines in Canada, and I will give you some typical instances to show you how it worked. In 1923 the operating ratio of the C.N.R. was 97·6. The operating ratio of the C.P.R. was 80·7. The adjustments to which I have referred, required in order to make a really comparable comparison, would reduce the Canadian National operating ratio to 82·0. In other words, had we the traffic density of the Canadian Pacific, had we the average haul of the Canadian Pacific, had we our accounts on the same basis as the Canadian Pacific, and had we been free of these managerial matters, which incidentally only accounts for one point in the operating ratio—it is not a very large item—our operating ratio in that year would have been 82·0 as against the Canadian Pacific operating ratio of 80·7.

Mr. MAYBANK: You used the expression one per cent in connection with these managerial difficulties.

Mr. FAIRWEATHER: One point in the operating ratio.

Mr. MAYBANK: Did you intend us to understand by that that you included such difficulties as arise from the duplication to which you referred?

Mr. FAIRWEATHER: Yes. The fact is that here you had the Canadian National with four properties that were built to compete with each other, and this thing runs into every phase of our operations. For instance, each one of these properties had a different standard for their equipment. One property fancied one type of equipment. We have the problem of maintaining, instead of one type of equipment, types that each one of these properties developed. Thus we lose the benefit of standardization to that extent. We also do have these redundant and duplicate facilities which we have to maintain and operate to some extent. The duplication of lines also enters into it. You have duplicate main lines. We can to some extent use a better line as the principal main line, but we have to maintain two main lines because there they are.

Mr. MAYBANK: And all of those carry the weight of one point?

Mr. FAIRWEATHER: I would say in a normal year they would carry a weight of about one point. Of course, when you get into a depressed year like you had in the depression—

Mr. MAYBANK: They are more important then?

Mr. FAIRWEATHER: Yes. And in that year it gets up to as high as 1·6, but, generally speaking, it runs from 1 to 1·6. If you come down to another years, let us take 1928 for instance, which was a very good year, our operating ratio was 83·6. The Canadian Pacific operating ratio in that same year was 75·8. They, apparently, were 8 points better than we were. But after you make these adjustments our operating ratio in that year is 70·1. In other words, had we had the traffic density that the Canadian Pacific had in 1928 our operating ratio would have been below theirs.

Mr. MAYBANK: Of all the various things you have mentioned, I presume density of traffic is the one that is weighted most heavily?

Mr. FAIRWEATHER: That amounts to a very considerable figure. I can give you the weights. In 1923 it amounted to 11·0 points. In 1924 it amounted to 9·8. In 1928 it amounted to 6·6. Density of traffic is far and away the most important of those items. The others are spread around the other items. But density of traffic is the real key to railway economics. If you get density of traffic your operating ratio will go down if you have efficient operation. For instance, every dollar of additional revenue would result in an increase in net of fifty cents right at the present time, and that would go on perhaps for the next ten or twelve million dollars of increased gross, and then it would diminish somewhat after that. The next step is that we would probably turn forty cents into net. Of course, the reason for that is that the law of diminishing returns comes in. Take a road with very heavy traffic density, it does not

get the benefit from it to the same extent as a road with thin traffic density, such as the Canadian National. Traffic density is the very life-blood of the property. If you get that, you can show a result, and that is the case with the Canadian National. Every time we get an increase in traffic density we show that. I will give you an illustration of it. The Canadian National Railways in 1928, although they had a traffic density at that time only half of that of the average class 1 road in the United States,—it was still a low traffic density road judged by any ordinary operating standard—stood fifth among all the railway systems on the North American continent in net revenue from railway operations. In other words, the Canadian National Railways ranked with the Big Four in the United States. It stood along with the Pennsylvania, the New York Central, the Southern Pacific and roads of that character. And it came about through efficient operation, reasonably efficient operation and traffic density. When the depression came along we lost that traffic density and our operating ratio went right up to practically over the 90.

Mr. VIEN: As compared to the C.P.R. during these years, what would the traffic density be?

Mr. FAIRWEATHER: As compared to the C.P.R.?

Mr. VIEN: Yes, during the same period.

Mr. FAIRWEATHER: On freight traffic, the C.P.R. ran about 18 per cent higher than the C.N.R. in traffic density; and on passenger traffic it was about 25 per cent higher.

Mr. VIEN: For what period?

Mr. FAIRWEATHER: That would be nearly uniform.

Mr. VIEN: That is not borne out by the Duff report. I read from page 33 of the Duff report. You know the Duff report?

Mr. FAIRWEATHER: I know the Duff report, yes.

Mr. VIEN: If you examine the schedules, or the graphs, that have been shown in the Duff report for the period, that is to say, the figures which were laid before the commission, they made an analysis of this and on page 33 is a comparison which gives the traffic density between the Canadian National and the Canadian Pacific. You will find from the graph that in miles of road, not percentages per mile of road—the heavy dark line—they divide the traffic as between your heavy traffic line, your medium traffic line and your light traffic line. The heavy traffic lines were 9·11 on the Canadian National as compared with 9·66 for the Canadian Pacific; which is not 18 per cent, nor 35 per cent different, it is hardly decimal one per cent. Medium traffic lines 47·97 Canadian National—

Mr. MAYBANK: May there not be a difference within what they class as heavy and what they class as medium?

Mr. VIEN: Would you kindly allow me to continue with this, and I will be very pleased to discuss it with you. I would like more especially to address myself to the point that I am trying to make; if I am all wrong I want to be shown, and I will be glad to be shown.

Medium traffic lines 47·97 C.N., 53·53 C.P.; light traffic lines 42·92 C.N. and 36·82 C.P. Then, if you take now the percentages per ton mile: On heavy traffic lines you get 46·91 C.N. as against 50·52 C.P.; medium traffic lines 48·10 C.N. as against 45·26 C.P.; and light traffic lines 42·92 as against 40·22. Wherein it is indicated from the Duff report that the density of traffic was not so violently different on either railway.

Mr. FAIRWEATHER: Well, sir, the explanation of that is that the Duff commission divided the lines between brackets. Now, these brackets have an end, do you see, on each side of them; and in bracketing the lines you might have quite a considerable variation in the traffic density and they would still fall within

the light, heavy or medium classification. You might have as much as 5 or 10 per cent of a difference and they would still fall within the same bracket.

Mr. VIEN: I think that on the point they have followed the statements that have been filed. This is largely an analysis by Mr. Loree, who is a great expert.

Mr. FAIRWEATHER: I am quite aware of that, sir; and I know the basis upon which it was done. As a matter of fact I assisted Mr. Loree in doing it. And I can say to you that the traffic density of the Canadian National Railway lines as compared with Canadian Pacific traffic density on freight measured by net ton miles per mile of line, which is an engineering classification, the C.P.R. is about 18 per cent higher than the Canadian National. Also, I can show you that on passenger traffic—

Mr. VIEN: For what period?

Mr. FAIRWEATHER: That is uniform, throughout the period. It varies by one or two per cent, but that is the average. Also, I can say that on passenger traffic density—

Mr. VIEN: Have you got the tabulation to show?

Mr. FAIRWEATHER: I can supply the tabulations. Yes.

Mr. VIEN: Would you file them?

Mr. FAIRWEATHER: I will. On passenger traffic the Canadian Pacific traffic density exceeds the Canadian National by from 20 to 25 per cent.

The CHAIRMAN: May I ask, Mr. Vien, if you have a particular point in mind about which you want to ask Mr. Fairweather?

Mr. VIEN: No. My point is this: I am trying to find out for the information of the committee whether the annual financial report of the Canadian National Railways is a true picture of the situation. My impression, and I want to be corrected if I am wrong, is that there is no accurate conclusion to be derived from the annual report as it is. I am not suggesting that there has been any juggling with the figures. I am not suggesting that it is not a proper picture of the books of the company as they are kept. But, my impression is that it does not give to the public of Canada a true picture of the situation as it is, in that particular of the traffic density for instance, I am trying to find out, as my question was pointed to, what is the operating ratio, how much does it cost the Canadian National Railways to earn a dollar during a certain period. And then, how does that compare with the Canadian Pacific operating ratio. And if the Canadian Pacific operating ratio is much below that of the Canadian National, what are the reasons for that. One of the reasons given by Mr. Fairweather was that the traffic density is much greater on the Canadian Pacific than on the Canadian National. I had already read that in reports of previous years' investigations by this very committee, the operating statements made in previous years by Mr. Fairweather himself, and the report of the Royal Commission and the tabulation to which I had referred. It did not appear to agree and I invited Mr. Fairweather to throw some light on this, because it did not agree with the statement that the traffic density varied very much. Therefore, I am trying to find out to what extent the annual report must be corrected to give to the public a true picture of the situation. And on that very point I had another question to put to Mr. Fairweather, and this is the question—I hope I am not delaying the committee unduly. May I proceed?

The CHAIRMAN: Certainly. Go head.

Mr. VIEN: The question that I was desirous of asking Mr. Fairweather is: Is it not a fact that traffic density does not affect very greatly operating expenses; it has a greater bearing on the incidence of fixed charges than on operating expenses?

Mr. FAIRWEATHER: For a given property; that is, within the capacity of the property to handle traffic do you see; and dealing with a property that has

the facilities, the road, the equipment and the machinery to handle traffic; there is a close relationship between operating density and the operating ratio. It is possible to reduce that connection on a somewhat scientific basis. It is a technical subject. I happen to be chairman of a committee of the American Railway Engineering Association dealing with that particular thing. I can say this, that within those limits there is no more important factor having a bearing upon operating ratio of the road than its traffic density, especially if the road is a road of low traffic density. As I said before, your operating expenses do not go up proportionately to your traffic. The consequence is this: Let us take a theoretical road with an operating ratio of, let us say, 90. Let us say that it is a low density road. Let us say now that its traffic density is increased 20 per cent. With that increase in traffic density of 20 per cent, the revenues would be increased 20 per cent, naturally; so that the divisor becomes 1.2. But the expenses, instead of being increased 20 per cent, would only be increased by approximately half that amount. Consequently in this case here what we call the fixed expenses, let us say, would be 50 per cent and the variable would be 40. Now, with the 20 per cent increase in traffic density, the expenses of that road would be 98 where they were 90, and the revenues would be \$1.20 where they were \$1, and the operating ratio would drop from 90 to 82. That is, an increase in traffic density of 20 per cent would drop the operating ratio 8 points on that theoretical road. That is just exactly the situation with the Canadian National Railways, or very similar to that. You see, I said that there was a difference in traffic density between the C.N.R. and the C.P.R. of approximately 18 per cent in freight and 25 per cent in passenger; and I said that the effect of that on the operating ratio was somewhere around 7 and 8 points, which is just exactly what I got from my calculation.

Mr. VIEN: Then if you prepared this statement for the Royal Commission, how is it that the picture given at page 33 of the Duff report is so different from the statement that you are just making.

Mr. FAIRWEATHER: Well, Mr. Loree in this case he was attempting not to make comparisons so much between the C.N.R. and the C.P.R. as he was to develop a theory that he had that roads with a traffic density of less than, I think he said, 250,000 ton-miles per mile should not be in existence. That is why he was classifying the roads between light, medium and heavy traffic. In making that classification, as I have explained, sir, you necessarily have to have a bracket. For instance, what do you call heavy? You call it heavy between certain limits. You see, you could have a 10 per cent variation on inside the heavy limit and still put it in the same classification. But you would still have a 10 per cent difference.

Mr. VIEN: Therefore the comparison that he makes between the C.N.R. and the C.P.R. is not accurate and is misleading.

Mr. FAIRWEATHER: I would not say that. Which?

Mr. VIEN: On page 33.

Mr. FAIRWEATHER: I would not say it was misleading, taken in connection with the context, no. No, I would not say it was misleading.

Mr. VIEN: Well, he divides the line as between heavy, medium, and light.

The CHAIRMAN: Where is the bracket?

Mr. VIEN: I take as the kind of bracket, the bracket that would be operating as regards the C.P.R. as well as the C.N.R.

Mr. FAIRWEATHER: May I make my point clear by pointing out one thing, and I think this will bring the thing to a head. The first category, he says—and this is on page 41—includes lines carrying annually in excess of 2,750,000 net ton-miles.

Mr. VIEN: Yes.

Mr. FAIRWEATHER: Suppose you had two lines, one carrying 2,750,000. You would call that heavy, would you not?

Mr. VIEN: Yes.

Mr. FAIRWEATHER: Now, you have got another line that is carrying 5,000,000. It is still heavy, is it not?

Mr. VIEN: Yes.

Mr. FAIRWEATHER: But in that same bracket you have got a difference in traffic density between the two lines of 100 per cent. Do you see my point?

Mr. VIEN: I see your point now.

The CHAIRMAN: Mr. Vien, could we postpone further this technical discussion until we come to that page? I would like to make some progress to-night. We can come back to that later on.

Mr. MAYBANK: There are a couple of questions that I want to ask on this point.

The CHAIRMAN: All right.

Mr. MAYBANK: You were saying that you had recast one statement in the same terms as the other one is made out, and you have done that for a number of years. You have been giving us some examples.

Mr. FAIRWEATHER: Oh, yes.

Mr. MAYBANK: Could you file a table that would show that for several years, similar to what you have just been giving?

Mr. FAIRWEATHER: I have a table I could file, yes.

Mr. MAYBANK: I would like to have such table filed, for my information. I suppose you could go back a number of years?

Mr. FAIRWEATHER: Yes. We do it every year. We try to compare our operating efficiency with any standard that we can get. We compare it with class one roads in the United States. We compare it with the C.P.R. I must say we find it quite difficult to compare with the C.P.R. because, although the figures are supposed to be comparable, let us say, there is not the same comparability between the statistics of Canadian roads as there is between the statistics of United States roads.

Mr. MAYBANK: I see.

Mr. FAIRWEATHER: Therefore we find it much harder to compare with the C.P.R. than with class one roads in the United States; but I have a statement comparing with the C.P.R.

Mr. MAYBANK: Perhaps at the same time you might put in a comparison similarly arrived at as between other class one or class two American roads, if you have it.

Mr. FAIRWEATHER: Well, we could put it in for the average of class one roads.

Mr. MAYBANK: All right. That would do. Now I would like to refer back to something that was said about the question of an agreement at Winnipeg. I would like to obtain the nature of that agreement with reference to the Fort Rouge shops, to which reference was made.

The CHAIRMAN: Do you want the agreement filed?

Mr. MAYBANK: It would be sufficient if you could give me an outline of that, the nature of it, and so forth.

The CHAIRMAN: A precis. Then, Mr. Fairweather, you will have four statements to prepare, one for Mr. Vien and three for my honourable friend. Have you taken a note of those?

Mr. FAIRWEATHER: Yes. I have a note of what is required.

The CHAIRMAN: Shall we postpone the discussion—

Mr. MAYBANK: That is satisfactory.

The CHAIRMAN: —of that same point until we reach the page? In the meantime we have been going rather far afield. I would like, in order to make some progress to-night, to ask if there are any further questions to be asked on loans from Dominion Government on page 29. If not, we have settled that; and I think we will get past that page anyway.

Mr. VIEN: On that question I wanted to know why the interest on Government loans is not carried in the annual returns, outside of the special tabulation. Should it not be shown as an indebtedness of the railway?

Mr. HOWARD: No.

Mr. FAIRWEATHER: It is shown.

Mr. YOUNG: It is shown on page 18.

Mr. VIEN: It is not shown on the balance sheet.

The CHAIRMAN: Yes, it is.

Hon. Mr. FULLERTON: It is shown.

Mr. COOPER: Page 17.

Mr. HUNGERFORD: Interest on Dominion Government Loans, page 18.

Mr. FAIRWEATHER: Page 17 and page 18 also.

The CHAIRMAN: It is the last item but one.

Mr. FAIRWEATHER: The item for the year appears on page 18 in the profit and loss account, and it is transferred over to the balance sheet and appears in the summation.

Mr. VIEN: On what page?

Mr. FAIRWEATHER: It is on page 18.

Mr. VIEN: In the profit and loss statement?

Mr. FAIRWEATHER: Yes; and then you will find it in the balance sheet on page 17, included in the item Other Loans from Dominion of Canada, interest on above, accrued but unpaid.

Mr. HANSON: The whole thing is \$174,000,000.

Mr. FAIRWEATHER: It appears on page 17, about half way down the page.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Then we have funded debt—principal and interest. I think that should carry.

Mr. VIEN: On what page is that found?

The CHAIRMAN: Page 28; we have been rambling backwards and forwards.

Mr. HOWARD: We like it that way.

The CHAIRMAN: These are only the details of the loans.

Carried.

The CHAIRMAN: Then on page 28 we have funded debt—principal and interest.

Hon. Mr. STEWART: How much of this has been refunded, called in prior to 1935? What does that refer to?

Mr. MAYBANK: I do not see any asterisks.

Mr. COOPER: I think it is all shown on page 27.

Mr. HOWARD: You have four there, one following the other.

Hon. Mr. STEWART: Yes. There is a 7 per cent sinking fund maturing in 1940, \$1,246,350, and another 7 per cent sinking fund debenture stock of \$1,525,819.17 maturing in 1940.

Mr. HOWARD: That is just accrued interest. The item has disappeared.

Mr. COOPER: The principal for these items is all set out on page 6, the items that were called?

Hon. Mr. STEWART: How much has been saved in interest charges on account of the refunding?

Mr. COOPER: On the items called in 1935, we figure a saving of \$2,800,000 after providing for the premium in terms of call.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Then we have receipts and expenditures for thirteen years. We have discussed that. Shall the item carry?

Carried.

The CHAIRMAN: We now come to additions and betterments, less retirements, on page 25. You have considered all these details in the operating expenses. That item could carry.

Mr. VIEN: With regard to that, is there anything proposed for Montreal this year under that heading? I am now speaking of the whole district of Montreal, terminals and otherwise.

Mr. HUNGERFORD: There is a special item for Montreal of \$100,000 in connection with terminal work, and that is practically all in settlement of land claims.

Mr. VIEN: So no improvements and betterments are contemplated this year in Montreal?

Mr. HUNGERFORD: As far as the management is concerned.

Mr. VIEN: Nor in the district?

Mr. HUNGERFORD: Oh, there may be some small items applicable to the district of Montreal; they would all have to be picked out.

Mr. FAIRWEATHER: There are some small ones. There is one here in connection with the Victoria bridge, \$600. Then there is another item in connection with the roadway on Victoria bridge, \$29,000; items like that.

Mr. VIEN: Is that in respect to the highway on Victoria bridge, or the bridge itself? I am speaking of the railway bridge or the main pillar.

Mr. FAIRWEATHER: That happens to be the highway portion of the bridge. It is to replace the wooden vehicular highway with a more substantial roadway.

Mr. VIEN: How much has that bridge cost?

Mr. FAIRWEATHER: I have the figures.

Mr. VIEN: Never mind. The question I wanted to ask you was whether the bridge has been paid for from the tolls that have been collected.

Mr. FAIRWEATHER: Far from it.

Mr. VIEN: I am not speaking of the railway bridge, but the vehicular bridge.

Mr. FAIRWEATHER: Far from it.

Mr. VIEN: Will you give us to-morrow or the next sitting of the committee the cost of the vehicular bridge; that is the vehicular extension, and how much has been collected? The people of Montreal are very anxious that the vehicular space on the Victoria bridge should be free.

Mr. FAIRWEATHER: That information can be supplied.

The CHAIRMAN: Would it be satisfactory if it was sent to you confidentially?

Mr. VIEN: Yes, I should be quite satisfied.

The CHAIRMAN: Then it will be given to you confidentially.

Mr. VIEN: Is it intended that this should be the last sitting of the committee at which the officers of the railway will be present?

The CHAIRMAN: No.

Mr. VIEN: I did not understand that.

The CHAIRMAN: The only reason we have been going all over the report without specifically dealing with one item at a time, was to make some progress and stop at page 30.

Mr. VIEN: To-morrow there is a caucus.

The CHAIRMAN: Would you not sacrifice the caucus?

Mr. VIEN: I am willing to sacrifice the caucus, but I do not know whether the caucus will sacrifice me.

The CHAIRMAN: It will be delighted, and I will take the risk with great pleasure.

Mr. VIEN: I doubt it very much.

The CHAIRMAN: We have been keeping the officers here for a long time, and if we sit to-morrow morning and afternoon, I think we could get through the report quite easily. Why not?

Mr. YOUNG: There is a fairly good reason. Can we not sit to-morrow at four and again at eight?

The CHAIRMAN: If you do not want to sit to-morrow morning we will sit to-morrow night.

Hon. Mr. HOWE: I think we should sit to-morrow morning.

The CHAIRMAN: The minister is showing an example.

Mr. YOUNG: We should not sit to-morrow morning. I think it is a pretty good rule that when caucuses are on, we should not sit. Other committees have been called off.

Mr. VIEN: Why not adjourn until next week?

The CHAIRMAN: I will tell you why, Mr. Vien. I am speaking personally now. I am a member of the pensions committee, and it so happens I preside now and then replacing the minister who is the chairman of the committee.

Mr. VIEN: They are not sitting this week.

The CHAIRMAN: They sit all week.

Mr. VIEN: How much longer will the committee last?

The CHAIRMAN: I think we shall finish the report in a couple of days. I think in fairness to the officers we should finish just as soon as possible.

Mr. HOWARD: Don't they like to be here?

The CHAIRMAN: There are only two pages left in the report and if we could get through the report to-morrow we might adjourn sine die, or at the call of the chair. Then, if we need the officers any more, we will call them back. So if we adjourn until to-morrow afternoon and sit to-morrow night, I think we could finish up.

Mr. VIEN: To-morrow is Wednesday.

Mr. HOWARD: All the better.

Mr. VIEN: Most of the members have commitments for Wednesday night.

The CHAIRMAN: We shall adjourn now until four o'clock to-morrow afternoon.

At 10 o'clock, the committee adjourned to meet Wednesday, May 6, at four o'clock.

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SESSION 1936



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HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

WEDNESDAY, MAY 6, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 6, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 4 p.m., the Chairman, Sir Eugène Fiset, presiding.

Members present: Messrs. Bothwell, Elliott (*Kindersley*), Ferland, Hanson, Howe, Kinley, Maybank, Moore, Parent (*Quebec West and South*), Stewart, Veniot, Vien, Walsh and Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. F. K. Morrow and Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways, and Mr. V. I. Smart, Deputy Minister of Railways and Canals.

Mr. Fairweather filed with the Clerk several statements in answer to questions by members of the Committee.

Ordered,—That these statements be printed as an Appendix to this day's proceedings.

Mr. Vien submitted a statement compiled by Mr. Morrow, showing revenues, operating expenses, interest charges and capital charges of the C.N.R., for the thirteen year period 1923 to 1935 inclusive.

It was agreed that Mr. Fairweather be given the opportunity of perusing this statement in order to report to the Committee thereon.

The Committee having resumed consideration of the Annual Report of the Canadian National Railway System, the following items were approved, viz:—

Investment in affiliated companies,
Major contingent liabilities in respect of affiliated and other companies,
Schedule of companies comprising the Canadian National Railway System,
Statement of revenue tonnage by commodities for years 1935-1934,
Details of railway equipment,
Statistics of rail-line operation—Train and locomotive mileage,
Employees and their compensation,
Distribution of the dollar,
Operated mileage, December 31, 1935.

On motion of Mr. Bothwell,—

Resolved,—That the Annual Report of the Canadian National Railway System be approved and reported.

Hon. Mr. Stewart referred to press reports dealing with the 1935 deficit of the Canadian National Railways and quoting statements made by the Right Honourable Mr. Bennett in the House on May 5, and by the Chairman of the Board of Trustees before this Committee at its previous sitting.

Whereupon, Hon. Mr. Fullerton explained that in his remarks before the Committee he was referring to the cash deficit whilst the figures quoted by the Right Hon. Mr. Bennett represented the net loss as shown in the Profit and Loss statement of the Annual Report.

At 6 o'clock the Committee adjourned until Thursday, May 7, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

WEDNESDAY, May 6, 1936.

The select standing committee on railways and shipping met at 4 o'clock. Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. Certain statements were asked for by Mr. Vien yesterday and also by Mr. Maybank. Will it be satisfactory if these statements are handed to the clerk to be recorded in the proceedings, and then handed to each member?

Some Hon. MEMBERS: Yes.

Mr. VIEN: Could they be shown to us?

The CHAIRMAN: You may have them now, if you like. Then will you give those to the Clerk of the Committee?

Mr. VIEN: Yes, I will be pleased to give them to the Clerk of the Committee. In that respect, I have a couple of questions that I would like to have answered by Mr. Fairweather, if I may.

The CHAIRMAN: Go ahead.

Mr. VIEN: Mr. Fairweather, I have a statement of the revenues, operating expenses, interest charges and capital expenditures of the railway, a compilation for the thirteen years from 1923 to 1935. Will you kindly examine them and tell me if those figures are in accordance with your books?

Mr. FAIRWEATHER: Mr. Vien, that would be a rather tall order right off the bat. I have no doubt, sir, that they are in accordance with our books.

Mr. VIEN: Would you say that it is a proper compilation of your figures?

Mr. FAIRWEATHER: Of my figures?

Mr. VIEN: Of the figures of the system.

Mr. FAIRWEATHER: I have no reason to doubt that these are taken from the published accounts of the Canadian National Railways.

Mr. VIEN: Do you give an exhibit number to a particular document?

The CHAIRMAN: Yes.

Mr. VIEN: Will you file this compilation as exhibit whatever it is?

Mr. BOTHWELL: I do not think that can be taken as a correct statement until we have had an opportunity of comparing it.

Mr. VIEN: I will not insist.

The CHAIRMAN: So that it may be in order, I want to ask Mr. Fairweather if he is perfectly satisfied that the figures contained in that statement are in accordance with their books?

Mr. FAIRWEATHER: I could not say that without having an opportunity of checking them. I have just seen the statement. I have said that I have no doubt it is correct.

Mr. YOUNG: I think the first thing we ought to find out is what statement this is that we have. Where did it come from?

Mr. MORROW: I will answer that. It is a statement that I compiled for myself.

Mr. VIEN: I shall give the title, which will give the honourable members the information as to what it is: Canadian National Railways, revenues, operating expenses, interest charges, capital expenditures of the railway for the thirteen years, 1923 to 1935 inclusive, year by year.

Mr. YOUNG: Prepared by whom?

Mr. VIEN: It has been prepared under the direction of Mr. Morrow, one of the trustees.

Mr. YOUNG: From the official report of the auditors?

Mr. MORROW: From the books and the statements of each year, from 1923 to 1935. There is nothing in there that is not in the books.

Hon. Mr. FULLERTON: You asked Mr. Fairweather if that is correct or not. He has had no opportunity of going over it.

Mr. YOUNG: It is not fair to ask Mr. Fairweather whether it complies with the books or not, when he has not had a chance to go over them.

The CHAIRMAN: Would it be satisfactory if the statement is placed in the hands of Mr. Fairweather for checking, and an opportunity be given him to report to the committee at the next meeting, if that is necessary?

Mr. YOUNG: That is reasonable.

Mr. VIEN: Yes. For the time being I will ask that an exhibit number be given to the document, so that we may refer to it.

The CHAIRMAN: But the consensus of opinion of the committee is that the document should not be marked as an exhibit before it has received the perusal of the officials of the Canadian National Railway, to see whether or not it is absolutely correct.

Mr. VIEN: All right. I will do otherwise.

The CHAIRMAN: Read it?

Mr. VIEN: No. I will ask Mr. Morrow to tell me if he is familiar with this document?

Mr. MORROW: Yes.

Mr. VIEN: Mr. Morrow is a trustee of the Canadian National Railways. I would also ask if he is in a position to tell the committee that these figures are a correct and accurate compilation of the official books of the Canadian National Railways?

Mr. MORROW: That is correct.

Mr. VIEN: That is correct. You have personal knowledge that these figures are accurate?

Mr. MORROW: They are accurate.

Mr. YOUNG: That should be satisfactory.

Mr. VIEN: Then, Mr. Morrow, will you file this document as an exhibit before the committee?

Mr. MORROW: Yes.

Mr. VIEN: All right.

The CHAIRMAN: Mr. Vien, there is the other phase of the situation. Usually the body appearing before this committee have a chairman; the trustees appear here as a body and they have a chairman. The chairman is Hon. Mr. Fullerton. It seems to me if a statement of that kind is to be placed before the committee for examination, perusal and study, it should be submitted through the chairman of the Board of Trustees. After all, it seems to me that is the regular and proper procedure to follow.

Mr. VIEN: On what basis, Mr. Chairman? I can call any of the officials. I can call Mr. Touche. I can call any auditor of the company. I can call Mr. Morrow. This is not said in any disparaging or discourteous manner to the

chairman of the committee. But I have studied the figures of the Canadian National Railways, and I have discussed them with the financial member of the Board of Trustees, who is Mr. Morrow. I am quite sure that the chairman of the trustees would be quite unable to speak with any degree of authority with respect to these figures unless they had been compiled under his immediate direction.

The CHAIRMAN: No. In fairness also to the Board of Trustees, these figures that have been compiled by one of the members should at least be submitted to the expert of the Canadian National Railways—and Mr. Fairweather is the expert—in order that he may put his veto or otherwise on them, as to their absolute correctness before you file the statement as an exhibit. After all, this is only a statement from Mr. Morrow himself. I think it is the consensus of opinion of the members of the committee that Mr. Fairweather should go over that statement to ascertain as to its correctness before it is filed before us officially as an exhibit.

Mr. VIEN: I have no objection, Mr. Chairman, except that I would like to point out to Mr. Fairweather that in this statement the total capital expenditures and interest charges in excess of revenue—and I am referring to the last two items in this statement—indicate that during the years 1923 to 1935 the total capital expenditures and interest charges in excess of revenue amount to \$847,016,620. This is exclusive of the interest on government loans unpaid. If you take now the interest on government loans unpaid for the same period, the figures being given in the statement year by year, you will find that the total for the thirteen years amounts to \$431,514,375. Adding those two figures together, namely, the total capital expenditures and interest charges in excess of revenue to interest on government loans unpaid, you arrive at a total capital expenditure of \$1,278,530,995. I want Mr. Fairweather to check the accuracy of those figures and to report to the committee. As summarily put, this would indicate that the actual deficit of the Canadian National Railways for the thirteen-year period, instead of being \$40,000,000 or \$50,000,000, would be very nearly on the average of \$100,000,000 a year.

Mr. SMART: Were there no assets?

Mr. YOUNG: I do not think that follows at all.

Mr. VIEN: What is that?

Mr. SMART: Were there no assets?

Mr. VIEN: I would not say that.

Mr. SMART: That is an important point.

Mr. VIEN: Col. Smart appears to smart under my remark.

Mr. YOUNG: I think he should.

Mr. VIEN: I do not know whether he should or not. But I am addressing myself to the committee. I am not stating that there would be no assets or that the amount of money would be spent to no proper account. But I am stating that this is what it has cost the country to carry the system during the last thirteen years.

Mr. YOUNG: Mr. Chairman, that opens up quite a question. We are having a statement come in here in what I think is an irregular manner; and there are no other members of the committee, apparently, who have been given this statement. I think the statement should be given to every member of the committee if it is given to any one member of the committee. The officers of the company apparently have not had an opportunity of checking it. I take it that the statement is quite accurate or Mr. Morrow would not give it. Nevertheless, one member of the committee who has had an opportunity of studying it now draws some deductions from it which may be right or may be wrong. When it comes before us like this, an elaborate statement of that kind, when the officials of the

road or of the company are not able to say whether or not it is in conformance with their records, I should like to ask how any member of this committee is able to follow this particular thing, in this particular fashion, at this particular time.

Mr. VIEN: All right. I will stay the matter there.

The CHAIRMAN: That is exactly what I meant. That is exactly the reason I asked Col. Vien to submit the report to Mr. Fairweather for study. You might perhaps, if necessary or if you think it is important enough, have copies made for each member of the committee, and we will consider it at the next meeting. Is that satisfactory?

Mr. VIEN: That is satisfactory.

Mr. LABELLE: Do we understand it is not filed in the meantime?

The CHAIRMAN: It is not to be filed until it has been perused and passed on. Would you refer to page 30, where we finished last night?

Mr. VIEN: Mr. Chairman, I would like, in respect of this as well as in respect of any questions I have put since the beginning of this inquiry, to make it well understood that, in putting these questions or in trying to get light on this particular annual statement of the company I have no idea of casting any reflection either on the ability or good faith of any of the employees of the railway. I do not believe that the trustees or the officers of the company could have done much better than they have done. I am quite satisfied as to that. I am simply trying to show, as I see it, that the annual statement of the company and the books as kept do not give a proper picture of the situation.

The CHAIRMAN: It is unfair to proceed until every member of the committee has before him the information you now possess. At the next meeting we will give you full opportunity to discuss the matter again.

Mr. VIEN: That is entirely satisfactory to me.

Mr. HANSON: It is the auditors' fault if there is something wrong with it.

The CHAIRMAN: It is an agglomeration of all that is contained in the report. I want to be fair to the other members of the committee and have them in full possession of all information you have yourself when we are discussing the matter, Mr. Vien.

Mr. VIEN: That is quite satisfactory to me.

The CHAIRMAN: Then page 30: Investments in affiliated companies. We very nearly went through that last night, rambling all over the shop as we did.

Hon. Mr. VENIOT: I move that it be adopted. (Carried.)

The CHAIRMAN: Again on page 30: Major contingent liabilities in respect of affiliated and other companies. Any question on that? We have already discussed the items contained therein. (Carried.)

The CHAIRMAN: Then page 31: Schedule of companies comprising the Canadian National Railway System. Some questions were asked last night on the subject matter, more especially by the minister. I think we have already approved of sheet number 31.

Mr. VIEN: On the question of recapitalization, which may be properly brought up. I would like to ask the chairman of the board of trustees or anyone he might direct to answer, if it would not be of great advantage to the system that there should be only one corporate entity, one set of books, and one system of accounting, and recapitalization on a more accurate basis of the real value of the system.

Hon. Mr. FULLERTON: I entirely agree with you.

Mr. LABELLE: But is it possible?

Hon. Mr. FULLERTON: I do not think it is possible in so far as a legal consolidation is concerned, but it is very possible to cut out a lot of the deadwood in our capital structure, I think.

Mr. VIEN: Could we understand a little further what are the obstacles in bringing that about?

Hon. Mr. FULLERTON: There are many legal obstacles in connection with it. There are so many different companies, so many bond issues criss-crossed, every way. The matter has been studied. An officer was employed to study it, and he studied it for two years.

Hon. Mr. VENIOT: The legal aspect?

Hon. Mr. FULLERTON: Yes, the legal aspect as well as the practical aspect of it; and it seemed to be almost impossible to bring about a legal consolidation to bring them into one entity, but I do not think it would prevent the reorganization of the capital structure. I think that is possible. However, it is a very complicated matter, there is no question about that.

Mr. VIEN: Is there any report on the recapitalization scheme?

Hon. Mr. FULLERTON: There have been a number of reports prepared and a number of recommendations made. For instance, take last year: the auditor made a recommendation for the reorganization of the capital structure.

Mr. VIEN: Mr. Touche?

Hon. Mr. FULLERTON: Yes, Touche & Company, the parliamentary auditors of the railway.

Mr. YOUNG: Is he the auditor this year?

Hon. Mr. FULLERTON: No appointment has been made this year so far, or at least I have not heard of any. Messrs. Clarkson & Company were the auditors last year, but this year no appointment has been made.

Mr. YOUNG: Last year meaning 1935?

Hon. Mr. FULLERTON: Yes.

Mr. YOUNG: When were Touche & Company auditors?

Hon. Mr. FULLERTON: 1934.

Mr. YOUNG: Which company was it who made this report of which you speak?

Hon. Mr. FULLERTON: Touche & Company, in 1934.

Mr. VIEN: Have you a copy of the report?

Hon. Mr. FULLERTON: Not with me.

The CHAIRMAN: A copy was submitted to every member last year.

Mr. VIEN: It would be interesting to have one copy filed.

The CHAIRMAN: There is one copy filed. We will find it in the record if you want to see it.

Mr. VIEN: Can you do so?

The CHAIRMAN: Yes.

Mr. VIEN: Will you make it available for me?

The CHAIRMAN: Yes.

Hon. Mr. STEWART: I would like to ask the chairman of the board of trustees to give the committee a short statement of the litigation now pending before the Privy Council.

Hon. Mr. FULLERTON: I know very little about the litigation because as a matter of fact we have had nothing to do with it. The government retained their own counsel to fight the matter. The papers have not been in our hands, as far as I know. We have had no official notice that there is any litigation, so far as that is concerned.

Hon. Mr. STEWART: But you do know that there is litigation?

Hon. Mr. FULLERTON: Yes, it was argued about three months ago.

Hon. Mr. STEWART: What is the character of the litigation?

Hon. Mr. FULLERTON: It is in connection with the capital stock. Certain holders of stock claim that they were wrongly deprived of their stock and asked to be replaced on the register; Grand Trunk shareholders, of course.

Hon. Mr. STEWART: Assuming that the decision would be favourable, what effect would that have on your capital structure if you readjusted your capital structure?

Hon. Mr. FULLERTON: If we readjusted the Grand Trunk part.

Hon. Mr. STEWART: Well.

Hon. Mr. FULLERTON: I have not given consideration to what effect that would have.

Hon. Mr. STEWART: Does it not throw the whole matter open? Is not that a reason why at the present time it would be unwise to have any rearrangement of the capital structure?

Hon. Mr. FULLERTON: I cannot say. That is a matter that would have to be given consideration, Mr. Stewart, and I have not given it any consideration.

Mr. VIEN: I have asked the same question, and yesterday I ascertained from the Department of Justice how the matter stood. I have a copy of the record of the Privy Council here. In 1931 a man named George Perdue Lovibond entered an action before the Supreme Court of Ontario in Toronto against the Grand Trunk Railway Company of Canada, the Canadian National Railway Company and the Attorney General of Canada. They had already made application to the Minister of Justice for a fiat to make a petition of right and a fiat had been refused by the Minister of Justice. Thereupon they instituted an action before the Supreme Court of Ontario asking that the legislation by the parliament of Canada enabling the Canadian government to take over the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern railways should be set aside. Thereupon Messrs. Tilley, Johnson, Thompson & Parmenter of Toronto appeared for the Attorney General of Canada and filed proceedings to have this action set aside on the ground that no such action should be instituted except by petition of right and a fiat from the Attorney General of Canada. The matter was heard before Mr. Justice Rose in the Supreme Court of Ontario and the stand taken by the Grand Trunk Railway Company as defendant, and the Attorney General of Canada, was upheld. The action was dismissed on the ground that it could not be taken except upon a petition of right and a fiat was necessary. An appeal was taken to the Appeal Court of Ontario and the judgment of Mr. Justice Rose was upheld. The action is now pending before the Privy Council in England and was argued during the month of February, 1936, and is now under advisement before the Privy Council. The question put by Mr. Stewart is whether that would have a bearing on the question of recapitalization, whether the judgment now pending before the Privy Council has any bearing, inasmuch as it is only on a question of law incidental to the other action. Ultimately if the action succeeded in setting aside the act of parliament whereby the government of Canada was empowered to expropriate the Grand Trunk and Grand Trunk Pacific and Canadian Northern railways evidently it would have a great bearing on it because we would no longer be the owners of these railways.

The CHAIRMAN: I remember that in 1934 the argument advanced to the members of the committee was that the question was still sub judice.

Mr. YOUNG: Is it the ownership of the railway that is involved in that action?

Hon. Mr. FULLERTON: Ownership of certain stock.

Mr. YOUNG: He said it might affect the ownership of the railway.

Mr. VIEN: That is the same thing.

Hon. Mr. FULLERTON: It would affect the ownership of the stock.

Hon. Mr. STEWART: If you own the stock you own the railway.

Hon. Mr. VENIOT: You might be called upon to pay quite a bit more money.

Hon. Mr. FULLERTON: That is about what it amounts to.

Hon. Mr. VENIOT: In this schedule of companies comprising the Canadian National Railway System none of those branch lines taken over are included?

Mr. FAIRWEATHER: Their corporate existence was extinguished at the time they were taken over.

Mr. YOUNG: I wanted to be quite clear whether or not it really does affect the ownership of the railway or whether the stockholders have the right to claim compensation?

Hon. Mr. FULLERTON: What it must end in is compensation. Supposing an adverse judgment came out, I cannot see any alternative but compensation. If the judgment is upheld in the final courts it could not be solved in any other way that I can see.

Mr. YOUNG: If that is true, and that is what I had in mind about this matter, and the stock is generally recognized as being worthless, even if we had to pay for something that has no value would that affect in any way the recapitalization of the company?

Hon. Mr. VENIOT: This is all a question of law.

Mr. YOUNG: One thing that strikes me as important is the question of recapitalization of the Canadian National Railway, and I am glad to hear the statement made to-day expressing the unanimous opinion of the board—

Mr. LABELLE: Oh, no.

Mr. YOUNG: Not unanimous?

Mr. LABELLE: If it means that the parliament of Canada had no right to expropriate it would complicate the situation, and I would not like to express an opinion while the case is still sub judice.

Hon. Mr. VENIOT: It is a question of law.

The CHAIRMAN: The minister himself stated the day before last that the government had the question under study.

Mr. VIEN: He did.

The CHAIRMAN: In the absence of the minister I would not like to venture an opinion on the subject matter.

Mr. VIEN: I might say that I think that at the present stage or even if they succeed in court it would hardly be a question of compensation. They contend that there was no right vested in anybody to transfer these shares to anybody else; that they are still the owners of these shares, still the owners of the stock of the company, and therefore the company belongs to them as stockholders. Therefore it would more than involve a question of compensation. It would involve a question of ownership of the railway itself through the ownership of the stock.

Hon. Mr. VENIOT: Carried.

The CHAIRMAN: Any further questions?

Mr. YOUNG: No.

Mr. VIEN: Our friend Dr. Young said the committee appeared to be in favour of recapitalization. I expressed no opinion as to that.

Mr. YOUNG: I do not think I said that.

Mr. VIEN: I am glad to be corrected.

Mr. YOUNG: I used the word "board" and a member of the board spoke up and I said no more.

Mr. VIEN: I was trying to find out what the objections to recapitalization were without expressing an opinion as to the expediency of recapitalization.

The CHAIRMAN: We have been told by the minister that the question was under study and they are giving it very careful consideration, and I suppose they will deliver a report to us next year and ask our opinion then.

Hon. Mr. STEWART: Just as it has been for some years in statu quo.

The CHAIRMAN: Carried as to sheet 31. Sheet 32 is the same. Sheet 33: Statement of revenue tonnage by commodities for years 1935-1934. Is it advisable that we should go through every commodity?

Hon. Mr. STEWART: What can you do about it?

The CHAIRMAN: Nothing at all. Sheet 33 carried.

Sheet 34: Revenue tonnage by commodities. That is exactly the same thing.

Sheet No. 35: Details of railway equipment. Is it carried?

Hon. Mr. STEWART: Just a moment, please.

Mr. WALSH: As to these units that have been discontinued or retired, 15,620 for this year. I would like to ask the management if that extraordinary retirement would mean that we are now starting with more or less of a clean sheet and we cannot anticipate any further extraordinary retirement of that nature?

Mr. HUNGERFORD: I think I answered that question yesterday. As far as I can foresee it is not likely to recur.

Hon. Mr. VENIOT: Carried.

Hon. Mr. STEWART: Does the same apply, Mr. Chairman of the board, with regard to locomotives and passenger equipment and work equipment?

Hon. Mr. FULLERTON: You are covering the whole field?

Mr. HUNGERFORD: Yes.

Hon. Mr. VENIOT: Are all locomotives used by the Canadian National Railway owned by the Canadian National Railway or are there still some under rental?

Mr. HUNGERFORD: There are still some not fully paid for, and that is true of cars, too.

Hon. Mr. VENIOT: How does that work out?

Mr. HUNGERFORD: Very well. It is a customary thing.

The CHAIRMAN: Sheet 35 carried.

Sheet 36: Statistics of mail-line operation—train and locomotive mileage. That is the same thing that we considered last night.

Hon. Mr. VENIOT: We have already touched on that.

The CHAIRMAN: The information you have asked for, Mr. Veniot, will be filed with the clerk and will be available to you.

Mr. VIEN: I understood Mr. Fairweather to state that some of them had been filed to-day. I asked yesterday the average annual income debited after payment of interest on funded debt including interest on amounts from the Dominion government for the five-year period 1926 to 1930 and 1931 to 1935.

The CHAIRMAN: I would suggest, Mr. Vien, that this will either be read into the record or the clerk will embody it in the record so that it will be available for every member of the committee.

Mr. VIEN: Yes, Mr. Chairman. That is quite all right. I wanted simply to enquire what were the documents that had been filed to-day.

Mr. FAIRWEATHER: There have been none filed as yet, but I have a lot here that I can file at any time.

Mr. VIEN: If they are ready every member could have them in the report.

The CHAIRMAN: Do you want them to be read here or handed to the clerk to file in the report?

Mr. VIEN: I think it would be satisfactory to hand them to the clerk.

The CHAIRMAN: As an appendix to the report?

Mr. MAYBANK: Are they all there?

Mr. FAIRWEATHER: There is a little more to come. A few questions required some further compilation, but everything that could be answered to-day is answered.

Mr. MAYBANK: And that which is not answered, when it does come forward will likewise be inserted in the record, Mr. Chairman?

The CHAIRMAN: Certainly.

We are down to page 38: Employees and their compensation—distribution of the dollar. Does anybody desire to enquire into that?

Mr. KINLEY: How does the distribution of the dollar compare with the Canadian Pacific Railway? For instance, .6054 goes to labour, fuel so much and other expenses so much in 1934.

Mr. FAIRWEATHER: The distribution is very similar to that of other railways, between general accounts.

Mr. KINLEY: How does your labour work out?

Mr. FAIRWEATHER: In 1935 it is .5590 cents.

Mr. KINLEY: And in 1934?

Mr. FAIRWEATHER: .5578 cents.

The CHAIRMAN: I think the two items should be considered together. You have there the employees and their compensation and also the distribution of the dollar. I think both should go together. Do you not think so, Mr. Fairweather?

Mr. FAIRWEATHER: I beg your pardon, sir?

The CHAIRMAN: Do you not think the two items should be considered together, the employees and their compensation and also the distribution of the dollar?

Mr. FAIRWEATHER: Yes, sir; they interlock.

The CHAIRMAN: Any further questions?

Mr. KINLEY: Mr. Fairweather did not answer my question. I asked him how the labour cost of the Canadian National Railway compared with the labour cost of the Canadian Pacific Railway as to the distribution of the dollar. Mr. Fairweather must surely know that.

Mr. FAIRWEATHER: Well, generally speaking, when you put the figures on a comparable basis you find there is a close similarity between the two. I can say that.

Hon. Mr. VENIOT: But you have not sufficient information to say exactly?

Mr. FAIRWEATHER: No. Employees and their compensation as reported to the Dominion government is a classification of the total payroll, and it includes all sorts of operations in addition to the straight operation of the railway. For instance, everything that is of a capital nature is in the item of employees and their compensation, but you will not find it in the operating expenses because naturally it is excluded. Then again you find a classification such as outside operations, which represents compensation but which is not in the operating statement. For instance, you will notice an asterisk on the number of our

employees. We say it includes railways, express and telegraph employees and excludes hotels and subsidiary companies. And it is really a very difficult matter to make a comparison between the Canadian National and the Canadian Pacific employees and their compensation; but when you iron out the differences in the methods by which the two railways report their employees and their compensation and take account of some of the factors I was speaking about last night, you find that there is a close comparison between the Canadian National and Canadian Pacific and any other railway of a similar build-up.

Mr. YOUNG: Are the same basic rates paid?

Mr. FAIRWEATHER: Yes, the same basic rates are paid.

Mr. KINLEY: The point is raised in this country that there are two things to do: Amalgamate the railways because of the superior and better methods of a privately owned road is the first thing. Here are your operating expenses which contain your labour, and of every dollar earned you put 60·54 cents into labour.

Mr. FAIRWEATHER: That is of the expense dollar, yes.

Mr. KINLEY: The distribution of the dollar.

Mr. FAIRWEATHER: Of the expense dollar.

Mr. KINLEY: Operating revenue.

Mr. FAIRWEATHER: In operating revenue labour is 55·9 cents.

Mr. KINLEY: Well, 55·9. Now, the point is, if the privately owned railway is much more efficient than that, it would be a good thing for this country to amalgamate the Canadian National Railway under the private management of the C.P.R. or some other way. Do the figures which they publish show how much better or how much worse they do?

Mr. FAIRWEATHER: As I say sir, these figures cannot be compared in the raw; but I can say this, that it is my special job to compare the efficiency of the Canadian National Railway with the efficiency of any other road. And I am here to say that I have not yet found any other railway that exceeds the Canadian National Railway in efficiency.

Mr. KINLEY: That is a good statement.

Mr. MAYBANK: The C.P.R. doubtless publishes a report substantially like the one we are on.

Mr. FAIRWEATHER: The Canadian Pacific Railway make a report to the dominion government, and that is in accordance with—

Mr. MAYBANK: The one you are looking at now, which is the report of the C.P.R., is not nearly as comprehensive as yours.

Mr. FAIRWEATHER: The C.P.R. do not ordinarily publish as much details as we do.

Mr. MAYBANK: I know there is extant some place a book showing figures of the distribution of a dollar similar to yours.

Mr. FAIRWEATHER: Well I notice they have a statement on page 35 of their annual report that shows the per cent of their total payroll to operating revenue, and it is 49·95.

Mr. MAYBANK: Just stop there for a moment. In the first place do they include express and telegraph employees?

Mr. FAIRWEATHER: That is what I was saying last night; our expenses do; the Canadian Pacific do not.

Mr. MAYBANK: Exactly. Do they include hotel employees?

Mr. FAIRWEATHER: I do not think so.

Mr. MAYBANK: You do not think so?

Mr. FAIRWEATHER: I say they do not; neither do we.

Mr. MAYBANK: If they include hotel employees would it not go to show a reduction because they are low paid labour?

Mr. FAIRWEATHER: I am almost certain they do not; in fact, I can say they do not; neither do we.

Mr. MAYBANK: Do you know whether they include any section of labour which is relatively low paid?

Mr. FAIRWEATHER: No. In their report, sir, as near as I can make out, the difference in their labour payroll is made up of the fact that the express department employees are not shown in their expenses, neither are commercial telegraph employees shown in the expenses.

Mr. MAYBANK: They are a high paid class?

Mr. FAIRWEATHER: That amounts to, if I remember correctly, somewhere around \$6,000,000, a comparable figure of the Canadian National, \$6,000,000 of payroll shown in our operating expenses.

Mr. KINLEY: For telegraphs?

Mr. FAIRWEATHER: For telegraph and express. They are excluded from the Canadian Pacific.

Mr. KINLEY: That helps you out because telegraph labour is low paid?

Mr. FAIRWEATHER: No, by no means.

Hon. Mr. HOWE: No.

Mr. FAIRWEATHER: Then in addition to that there are some other differences. For instance, the Canadian Pacific organization for colonization which is a very extensive operation, is not shown in their operating statement. That comes under special operations. Unless you are in a position to take these things apart and put them on a comparable basis you really cannot draw any comparison from the raw figures. Now I say, so far as I have been able to do that, after it is done, the Canadian National compares very favourably with the Canadian Pacific.

Mr. MAYBANK: Or any other road.

Mr. FAIRWEATHER: Or any other road. As I say, I have not found any other road, when you get right down to brass tacks, that can show us very much. I do not say that in any boasting sense; but inherently the Canadian National Railways are as efficient as any other railway that has the same operating problem. That is the point I wish to make.

Mr. KINLEY: There is a difference between 49 and 55 from your own figures on labour operating revenue.

Mr. FAIRWEATHER: That is explained.

Mr. KINLEY: By telegraphs?

Mr. FAIRWEATHER: Partly.

Mr. KINLEY: I do not think that would disturb your ratio.

Mr. FAIRWEATHER: \$6,000,000 is a lot of money.

Mr. KINLEY: It would not disturb your ratio very much.

Mr. FAIRWEATHER: That is a lot of money sir, and it has a bearing. But in addition to that last night I explained that there were things about the Canadian National railways that make our operating ratio higher and that also carries into our labour account making it higher than the Canadian Pacific, and of necessity so.

Mr. KINLEY: You claim that in so far as labour costs are concerned your railroad is run as efficiently as any other?

Mr. FAIRWEATHER: I say in so far as the administration, the labour and application of material is concerned, the operations of trains and stations, all the operations of the railway, telegraph and express, the Canadian National is efficiently operated, yes sir.

Mr. KINLEY: Notwithstanding politics.

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: There is no doubt that the fact that the Canadian Pacific has only two great divisions, the eastern and western lines, whereas you have more regions than that, has some bearing. I am not putting it at your door, but I am simply saying it is a fact, and it must necessarily involve a bigger staff and a heavier overhead than you would otherwise have if you had only the western and eastern lines.

Mr. FAIRWEATHER: Well the point about that is this: The Canadian Pacific has a problem somewhat similar to ours; that is in so far as United States lines are concerned. They have affiliations in the United States and they have separate organizations for those just as we have. We have to maintain a separate organization for the Grand Trunk Western and also a separate organization for the Central Vermont. In Canada the divisions between the property consists of the eastern or western division, the same as the Canadian Pacific, but we also have the eastern lines.

Hon. Mr. VENIOT: You are compelled under the British North America Act to have that.

Mr. VIEN: I am not discussing whether it lies within your power to do away with that; I am asking your opinion as to whether that is a fact. Does it not involve additional expenses that would be done away with if instead of an Atlantic and a central region—what are the other regions?

Hon. Mr. FULLERTON: The western region.

Mr. VIEN: You have three in Canada.

Mr. FAIRWEATHER: We have three regions in Canada.

Mr. VIEN: Instead of two. Does this, as a matter of fact, involve additional staff, or does it not? Does it involve additional expenses, or does it not?

Mr. FAIRWEATHER: It would involve some additional expense and staff undoubtedly, but I think that one of the reasons perhaps, for the high efficiency of the Canadian National Railways, is the fact that we have that degree of supervision.

Mr. HUNGERFORD: There is another factor. We have about 6,000 miles more of road in Canada to administer than the Canadian Pacific have.

Mr. VIEN: Is it therefore your considered opinion that from an operating point of view it is preferable to have three regions instead of two?

Mr. HUNGERFORD: Taken altogether, I think so, yes.

Mr. YOUNG: A few moments ago Mr. Kinley when discussing labour costs added the words "notwithstanding politics." I should like to ask the board if labour costs have been increased on account of politics.

Mr. WALSH: No, decreased.

Mr. YOUNG: Have politics been interfering to make labour costs greater?

Hon. Mr. FULLERTON: I do not see how they could. Labour costs are all fixed by agreements with the men, all scheduled prices, and it is done by conference with the men, agreements arrived at, wages fixed. There is no question about politics so far as that goes.

Mr. YOUNG: I want that statement to go in the record.

Mr. HANSON: The same wages are paid on the C.P.R. as on the C.N.R.?

Mr. KINLEY: As far as that goes, I got a letter from somebody the other day on members sending out propaganda, also speaking about the grave problem of the Canadian National, saying it was killing the country and the solution was to take it out of politics.

The CHAIRMAN: Because we do not dare to amalgamate.

Mr. KINLEY: If it is proper to amalgamate—

Hon. Mr. HOWE: There is a distinction in what we call politics. Partisan politics has no more effect on the Canadian National, as I see it, than on the Canadian Pacific. In other words, I do not think any attention is paid to pressure on the Canadian National Railways, and I do not think there is any pressure to promote people who do not deserve promotion; but there is political pressure that the C.P.R. feels as much as we do, and that is this: If we have a station that is not earning money and we want to close it, we are up against the greatest pressure in the world and it is a pressure that makes it almost impossible to close it. In fact we have tried to close—that is the Canadian National Railways—a number of unprofitable stations and unprofitable branch lines and a storm of protest comes upon us, as members of parliament know as well as I know, that puts enough pressure before the railway board to stop the closing. In other words, we are stopped from making the economies we might make.

The CHAIRMAN: From what part of the country does the pressure come?

Hon. Mr. HOWE: North, south, east and west.

The CHAIRMAN: If it is in the eastern division and a member of parliament tries to interfere, it is closed right off.

Hon. Mr. HOWE: That is the real difficulty so far as pressure goes on the railway in connection with making economies.

Mr. WALSH: That happens to the C.P.R. as well?

Hon. Mr. HOWE: I think so.

Mr. WALSH: It is a matter of public opinion.

Hon. Mr. HOWE: Exactly.

Mr. WALSH: There is a certain amount of public interference so far as the Canadian National is concerned. We had a glaring example of that. For example, I know where officials of the Canadian National wanted to move a man who was in a constituency quite close to Montreal, and the member there strenuously objected, suggesting even in his letter that this man was the key man in the political organization in his district; therefore he should not be moved, and he was not moved.

Mr. YOUNG: I take it then, he was an efficient man.

Mr. WALSH: He was a very efficient man, we can judge, by the majority of the member concerned.

Hon. Mr. VENIOT: Now, Mr. Chairman, would it be called politics if the member for a county where a station is to be closed or the railway authorities applied for the closing of it, should enter a protest before the Board of Railway Commissioners. Surely there is no politics there.

The CHAIRMAN: If the member of parliament were a clever man he would be supported by a resolution of the city council, and he would present that resolution and would not act on his own.

Hon. Mr. STEWART: Thank you; it is a good hint.

Mr. KINLEY: I was not here yesterday. May I ask this question now: With regard to the associations of the Canadian National outside Canada or their properties outside Canada, do they contribute to the revenue or increase the deficit. In other words, are the properties outside Canada a profitable part of the Canadian National?

Mr. HUNGERFORD: You are speaking of the American lines?

Mr. KINLEY: You are operating roads outside of Canada, and the deficit brings to mind something of serious concern.

Mr. HUNGERFORD: It is not a simple question to answer, because again the connection with the American lines contributes to the traffic of the Canadian lines.

Mr. KINLEY: They feed the Canadian lines?

Mr. HUNGERFORD: They are feeders to a very considerable extent, so the answer is not—

Mr. VIEN: Are you not obliged under the act and regulations of the Interstate Commerce Commission to keep the accounts of the American lines separate and distinct?

Mr. HUNGERFORD: Yes.

Mr. VIEN: And in these accounts do the American lines show a surplus or a deficit?

Mr. HUNGERFORD: Well, it all depends on the period of time, the particular date.

Mr. VIEN: Take 1935, for instance.

Mr. FAIRWEATHER: Take the Grand Trunk Western Railway Company, the income or loss to the C.N.R. through the ownership of the property; that is, in 1929 we had a surplus on the Grand Trunk Western of \$6,155,000; in 1932, which was the worst year of the depression, there was a loss of \$3,281,000; in 1935 there was a profit of \$1,601,000.

Mr. VIEN: Have you got the five years from 1931 to 1935?

Mr. FAIRWEATHER: I have them here, yes.

Mr. VIEN: Could you give the surpluses or deficits for each of those years?

Mr. FAIRWEATHER: In 1929 there was \$6,155,000 surplus; in 1930 a surplus of \$1,165,000; 1931, a deficit of \$2,390,000; 1932, a deficit of \$3,281,000.

Mr. KINLEY: What railway is that?

Mr. FAIRWEATHER: The Grand Trunk Western. In 1933, a deficit of \$1,785,000; in 1934, a surplus of \$64,000; in 1935, a surplus of \$1,601,000.

Mr. VIEN: Have you got a summary of the deficits or surpluses?

Mr. FAIRWEATHER: They could be added up. I have not that here, sir.

Mr. VIEN: Never mind.

Mr. FAIRWEATHER: That does not tell the whole story, not by a whole lot. Because you see, these lines act as feeders for the rest of the system.

Mr. KINLEY: Would they not feed if somebody else owned them?

Mr. FAIRWEATHER: No, indeed. That traffic field is the most highly competitive traffic field that you can imagine. I do not think this should go on the record, and I would ask that it be not taken down.

The CHAIRMAN: Do not take this, Mr. Reporter.

Explanation by Mr. Fairweather followed which on the instructions of the Chairman, was not reported.

The CHAIRMAN: Shall the item carry?

Mr. WALSH: Would you suggest that the Canadian Pacific Railway had similar feeders in a similar territory?

Mr. FAIRWEATHER: They never succeeded in getting a line into Chicago from the east, and they have not a direct connection to the Niagara frontier either. The most they have been able to do there is to get a connection through the T.H. & B., a half interest—they own not a half interest; but it will be a fractional interest in the T.H. & B. which gives them access to the Niagara frontier. But they have no line comparable to our Grand Trunk Western line. They have west of Chicago. They have a number of lines running up to the west from Chicago.

Mr. HUNGERFORD: There is the Soo line on the south shore.

Mr. FAIRWEATHER: Yes. And then there was the Wisconsin Central which they controlled; that particular line is in bankruptcy.

Mr. VIEN: Are these all of the lines controlled by the Canadian National in the United States?

Mr. FAIRWEATHER: Which?

Mr. VIEN: I mean, the Grand Trunk Central and the Central Vermont.

Mr. FAIRWEATHER: No. Our lines in United States are comprised of the Duluth, Winnipeg and Pacific which is a line out in—

Mr. HUNGERFORD: About 170 miles long, running down to Duluth.

Mr. FAIRWEATHER: And then there is the Grand Trunk Western, the Central Vermont, the New England line.

Mr. KINLEY: In New England you have a terminal at Portland, Maine?

Mr. FAIRWEATHER: Yes.

Mr. KINLEY: And so have the C.P.R.?

Mr. FAIRWEATHER: No.

Mr. KINLEY: Only the Canadian National Railway.

Mr. HUNGERFORD: They connect with the Maine Central at Saint John, Vermont.

Mr. KINLEY: Yes.

Mr. FAIRWEATHER: There are a few little odds and ends down in northern New York—I think there would probably be a couple of hundred miles of odds and ends that are really unimportant.

Mr. VIEN: What about from British Columbia on the ocean?

Mr. FAIRWEATHER: From British Columbia over until you hit the Duluth, Winnipeg and Pacific, we have no line in the United States.

Mr. BOTHWELL: I move the adoption of the report.

The CHAIRMAN: Pending the filing of the documents asked for and the deposit of those documents with the clerk, has anybody any objection to the thing carrying?

Mr. KINLEY: I asked the other day, and it was to be given to me, for the operating picture of the Halifax and South Western Railway.

Mr. FAIRWEATHER: That is included.

The CHAIRMAN: It is in the report already.

Mr. WALSH: I have a few questions to put, if I am in order, when you are through with the rest.

Hon. Mr. STEWART: There are one or two questions I want to put, to clear up something that occurred yesterday, and then Mr. Vien has something that he wants to ask.

Mr. WALSH: I wanted to ask one or two questions in connection with the report, generally speaking, to get certain information.

The CHAIRMAN: All right.

Mr. WALSH: On page 29 we have interest charges there on temporary loans, \$783,000, and further up we have other interest charges of close to \$36,000,000. I cannot find any trace of where that \$36,000,000 enters into the picture outside of that one spot.

Hon. Mr. FULLERTON: What page is that?

Mr. WALSH: Page 29, loans from Dominion of Canada, \$35,949,000.

Hon. Mr. HOWE: I think they are part of a refunding operation; I think they are temporary loans. We took up certain securities, seven per cent securities, or the Dominion Treasury did; and after they reached \$78,000,000

the railway itself brought out a bond issue of \$78,000,000 and took those securities off our hands. I think that is incidental to refunding operations. Am I right, Mr. Fairweather?

Mr. FAIRWEATHER: Yes.

Hon. Mr. HOWE: It is purely a temporary thing. I presume it is in the balance sheet.

Mr. WALSH: It has nothing to do with interest that is due to the government?

Hon. Mr. HOWE: No.

Mr. WALSH: For loans from the Dominion government?

Hon. Mr. HOWE: No. This was purely a very temporary thing. I know we bought those 7 per cents in December; and I think it was in February that we floated the loan for Canadian National Railways account and they took those bonds off our hands.

Mr. WALSH: Still in the statement on page 3 you have got interest on government loans for refunding, and the only amount mentioned there is \$783,000, and that is interest on temporary loans. There is no mention there of the other interest of \$35,949,000.

Hon. Mr. HOWE: Yes.

Mr. COOPER: That item is set out on page 18.

Hon. Mr. HOWE: Interest on Dominion government loans.

Mr. WALSH: Why is that not included in this statement? Why does it go through the net profit and loss like that?

Hon. Mr. HOWE: That is interest on old debts of the government since Confederation. That is what we call interest due the government.

Hon. Mr. STEWART: That is the total, is it not?

Hon. Mr. HOWE: Yes, the total. That includes interest and deficits, money advanced to make up deficits and so on.

Mr. VIEN: I understand there was a Canadian National Railway Financing Act from year to year until 1935 to provide any cash deficit that would be necessary for the operation of the railway. Is that correct?

Mr. FAIRWEATHER: That has been the practice for, I think, about four years.

The CHAIRMAN: Since 1932.

Mr. VIEN: Could you tell us what the provision in the Canadian National Railway Financing Act was in 1935?

Mr. FAIRWEATHER: Well, I have that here. The provision for deficits as budgeted was \$44,000,000.

Mr. VIEN: \$44,000,000.

The CHAIRMAN: I think what Mr. Vien wants to know is what was contained in it; there was an act introduced in the House last year by resolution.

Mr. VIEN: That is what Mr. Fairweather is referring to. The act provided for \$44,000,000.

Mr. FAIRWEATHER: For cash deficit.

Mr. VIEN: Cash deficit. I see on page 5 of your report that the cash deficit was \$47,421,000 in 1935.

Mr. FAIRWEATHER: Yes.

Mr. VIEN: Then there would be an excess of \$3,421,000 over your estimate and over the provision of the Financing Act?

Mr. FAIRWEATHER: There was an increase. The actual cash deficit exceeded the budgeted deficit by \$3,421,464.80.

Mr. VIEN: When you became involved to that extent over and above your estimates as provided in the financing act, how were these funds provided for?

Mr. FAIRWEATHER: Of course, until parliament came along undoubtedly we would have to carry that in working capital.

Mr. VIEN: But do you borrow from the banks or how do you provide for it?

Mr. FAIRWEATHER: Of course, we have a fairly substantial amount of working capital; I do not think we borrowed from the banks.

Mr. VIEN: Where do you get your working capital from?

Mr. FAIRWEATHER: Originally from the government.

Mr. VIEN: And it is carried on from year to year?

Mr. FAIRWEATHER: Yes. You see, that amount there was not sufficient to really handicap us very much.

Mr. VIEN: You took it from your working capital without any financing either from the government or from the banks?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: Do you put in your annual estimates any indication of the possibility of your estimates being exceeded by your actual expenditures?

Mr. FAIRWEATHER: We make the best estimate we can in the circumstances.

The CHAIRMAN: The same applies to every department of the Crown.

Mr. VIEN: Surely. But I wanted to know how that was made up, either by special warrants or borrowings from the banks or otherwise.

Mr. FAIRWEATHER: I think Mr. Roberts explained that the other day.

Mr. VIEN: I am sorry. I was not here if he did. I am sorry if it is repetition. There is another aspect of the problem as to which I wanted to ask Mr. Fairweather a few questions. I did not understand why it would be found advisable for the Canadian National Railway to indicate with respect to their express and telegraph revenues only their gross revenues and gross expenditures as against the practice which Mr. Fairweather indicated last night was followed by the C.P.R. of showing only the net revenues for express and telegraphs.

Mr. FAIRWEATHER: I did not say they showed only the net, sir.

Mr. VIEN: Did you not?

Mr. FAIRWEATHER: No. We practise consolidated accounting and treat the express and telegraphs simply as departments of the railway. The Canadian Pacific Railway treat their commercial telegraph and commercial express as independent corporate operations. I do not know whether there is any particular merit in one system or the other except that we believe ours shows in a comprehensive and consolidated way the actual operations of our steam lines of railways and their ancillary services. The Canadian Pacific Railway follow a different practice. They probably find it is desirable. I have no criticism of what they are doing in any sense.

Mr. VIEN: I wanted to find out if there was any advantage or whether it gave any particular character to the picture? Does it change the picture in any way?

Mr. FAIRWEATHER: It does affect the comparison of the operating ratio.

Mr. VIEN: I cannot understand how it does if the Canadian Pacific Railway shows only the net revenues or deficits and you show the gross revenues and gross expenditures. How does it affect the operating ratio?

Mr. FAIRWEATHER: It arises out of the internal nature of those accounts, sir. I know it does. Of course, when you say they put in net revenue, that is not correct. So far as I understand it, on telegraph services they do not put anything, neither their commercial revenues nor commercial expenses.

Mr. VIEN: They do not indicate in their annual report the express or telegraph?

Mr. FAIRWEATHER: No. With regard to express they include an item called express privileges, and that is an arbitrary percentage of the express revenue which the express company pays to the Canadian Pacific Railway for permission to operate express cars over the Canadian Pacific Railway, but they do not put in expenditures against them.

Mr. VIEN: This is not critical, it is simply informative.

Hon. Mr. FULLERTON: Quite.

Mr. VIEN: Could the chairman of the board or any member of the board of trustees or Mr. Hungerford state what were the estimated savings accomplished in 1935 through the cooperation with the Canadian Pacific Railway by pooling of trains or other devices?

The CHAIRMAN: It is set out in the report.

Hon. Mr. FULLERTON: It is set out very fully in our report at page 6.

Mr. VIEN: Is there any indication of the actual saving?

Hon. Mr. FULLERTON: The estimated savings of the two companies is \$1,600,000.

Mr. VIEN: That is the aggregate amount?

Hon. Mr. FULLERTON: Yes.

Mr. HANSON: We went all through that the other day.

Mr. VIEN: I am sorry if I am tedious.

The CHAIRMAN: That is perfectly all right, Mr. Vien.

Mr. VIEN: Are there any further steps in contemplation to bring about closer co-operation between the two railways?

Hon. Mr. FULLERTON: We are working on it all the time, but it involves a great deal of work.

Mr. VIEN: Could you say what further curtailments in duplication of service there are in contemplation?

Hon. Mr. FULLERTON: For example, we have about 1,700 miles of duplicate functional lines which we are studying.

Mr. VIEN: Extending all over Canada?

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: They are enumerated on page 7.

Hon. Mr. FULLERTON: Yes, you have it all on page 7.

Hon. Mr. STEWART: Pages 6 and 7.

Mr. VIEN: Is there any indication of the estimated savings which would result from that further co-operation?

Hon. Mr. FULLERTON: No; it would be impossible to furnish those figures.

Mr. YOUNG: Before we get off this so-called co-operation, just what is done exactly? Take lines from Montreal to Toronto, what is done in actual practice?

Hon. Mr. FULLERTON: In the first place, there is the joint co-operative committee, that is a joint technical committee of the Canadian Pacific Railway and the Canadian National Railway who work together on this study. We also have a joint executive committee of C.P.R. directors and the Canadian National trustees who meet from time to time. Certain subjects are submitted by the joint executive to the technical committee and the technical committee study them and make a report and recommendation. When the proposal is recommended by the joint co-operative committee and approved by the joint executive committee an agreement is prepared. Let us say the proposal is the abandonment of functionally duplicate lines. After the agreement is prepared application is made to the railway board for permission to abandon one of the lines whether Canadian Pacific or Canadian National, and if you succeed in getting by the railway board you put it into effect.

Mr. HANSON: How do you divide revenues?

Hon. Mr. FULLERTON: That is a very very complicated problem, a very technical matter. Perhaps Mr. Fairweather could explain it better than I can.

Mr. FAIRWEATHER: In the pool service?

Hon. Mr. FULLERTON: Or in any joint coordination.

Mr. FAIRWEATHER: The revenue is pooled in what we call pooled channels. That is to say, we would take a channel between Montreal and Toronto, and all the passenger revenue that went through that pooled channel or any portion of that pooled channel is pooled revenue. The amount that each company puts into the pool is determined by an audit of their ticket sales, and then the pool is divided in the proportion of the ticket sales that each company had in a prior test period, a test period existing before the pool went into effect. We take this pooled channel and analyze from the past record how much traffic each company had going through that pooled channel, and if one company had 48 per cent of the total and the other company had 52 per cent then for the pooled revenue irrespective of who sold the tickets or irrespective of whether a passenger travelled on a pooled train or a non-pooled train, quite irrespective of that, the revenue would be divided in the proportion of 48 and 52.

Mr. HANSON: Supposing that all the passengers in the year 1936 in some sudden way decided to travel on the Canadian Pacific Railway. In the ordinary course of events I take it that the past experience would govern?

Mr. FAIRWEATHER: Quite.

Mr. HANSON: Or if all the people decided to travel on the Canadian National Railway the past experience would govern for that pooled travel.

Mr. MAYBANK: You know how you are going to share?

Mr. FAIRWEATHER: Yes, it is in the agreement.

Mr. KINLEY: And what about the expense of running the train?

Mr. FAIRWEATHER: The expense of running the train was solved in a very simple manner. We spent a great deal of thought over that problem because you can run into all sorts of difficulties when you start building up expense accounts between railways. I have had some experience in that, and I know something about it. We worked out a simple basis whereby each company had to provide the same amount of train service, that is each company in the pooled channel for the pooled train has to provide its quota of the train service and equipment, so that we balance. For every train mile the other company runs we have to run a train mile, and we escape all the accounting and billing between one company and the other.

Mr. KINLEY: How do you apportion the dead-heads on the pool train.

Mr. FAIRWEATHER: We do not attempt to do so.

Mr. YOUNG: Supposing that for some reason or other, let us say general efficient service over a whole system over a period of two or three or four years, people are attracted to the particular line giving that more efficient service, I take it that under this system the company giving that general efficient service would not be benefited on the channels which are now pooled?

Mr. FAIRWEATHER: That is quite true; but if they were operating those pooled trains they would have in them the equipment of both the Canadian National and the Canadian Pacific. Further than that, they have to make connections with the other fellow's line. For instance, a train going to Toronto connects with the Canadian National and Canadian Pacific lines, and trains coming into Montreal make connections with the Canadian National and Canadian Pacific lines, and believe me if you do not give efficient service you hear about it.

Mr. YOUNG: I did not mean that. I meant this: Let us assume that one railway from coast to coast has been coming up to a better standard of service, and from coast to coast experiencing a great volume of the total traffic on account of its efficient service, that would not be reflected in this pooled channel area.

Mr. FAIRWEATHER: I understand your question, sir. The revenues in the pooled channel are divided in accordance with past experience, but of course the agreement may be cancelled at any time on three months' notice, I believe.

Mr. KINLEY: A lot would depend on whose channel it was. If it was the other fellow's channel before, you had better stay out of it?

Mr. FAIRWEATHER: A channel is common to both.

Mr. KINLEY: But if one fellow has been getting the business he is adjusting with you a fifty-fifty operation on the former revenue, which is in your interest. If you are pooled in the C.P.R. field he is getting the benefit to-day and if he is pooled in your field you are getting the benefit.

Hon. Mr. STEWART: You are saving the losses.

The CHAIRMAN: You have certain questions, Mr. Stewart?

Hon. Mr. STEWART: Yes. I wanted to bring up for the consideration of the board of trustees a statement made last night in respect of the cash deficit.

Mr. MAYBANK: Since this is the introduction of a new subject would you permit me to ask a couple of questions on the subject we have been discussing?

Hon. Mr. STEWART: Certainly.

Mr. MAYBANK: I thought Mr. Stewart was going to ask a question on the same subject matter. With reference to all these schemes of co-operation, can they be effected without expense to labour? Is that where all the saving takes place?

Mr. FAIRWEATHER: Of course, speaking as an economist, sir, it is all labour eventually, whether it is material or labour in the first instance.

Mr. MAYBANK: Let us say railroad labour. To what extent has economy such as you have been describing resulted in displacing labour on the railroad?

Mr. FAIRWEATHER: Undoubtedly every economy is reflected in displaced labour.

Mr. MAYBANK: To what extent is it displaced labour on the road and to what extent is it something else?

Mr. FAIRWEATHER: Direct railway labour on the average between 50 per cent and 60 per cent, and the rest of it would be fuel, materials, and things of that kind.

Mr. YOUNG: The chairman said there was \$1,600,000 saving to both companies. Did he mean that much to each company or combined?

Hon. Mr. FULLERTON: Combined.

Mr. YOUNG: The sum total of estimated saving is \$1,600,000.

Hon. Mr. FULLERTON: Yes.

Mr. MAYBANK: So \$1,600,000 of saving. 60 per cent is displaced labour on the railway?

Hon. Mr. FULLERTON: When the co-ordination act was passed in the United States an amendment was made to it preventing the letting out of labour, and that put the quietus on the whole thing. They have not been able since to make any economies.

Mr. VIEN: Have we not brought about some remedy by reducing to sixty years the age of superannuation? Have they not brought it down from sixty-five to sixty years?

Mr. MAYBANK: In the United States or in Canada?

Mr. VIEN: In the United States.

Mr. FAIRWEATHER: In the United States they have a Federal pension law, but it is sub judice at the present time. The railways have protested against it. It did not state any stipulated age. As a matter of fact, any man could retire upon completion of thirty years' service and a man could retire at fifty under that act if he had thirty years' service, but the top limit was seventy years and the bottom limit was fifty years.

Mr. VIEN: But they got the same benefit or the same annuity upon being superannuated that they would otherwise have had in reaching the age limit.

Mr. FAIRWEATHER: No; you could not say that. A great many of the railways in the United States had their own pension plan. This Federal pension plan came in on top of them. The pension plan, in my opinion, had very little to do with this displaced labour. That question of displaced labour right at the present time is under active negotiation between the railways, the representatives of labour and the Federal Co-ordinates. I am not aware that they have reached a final conclusion.

Mr. WALSH: If you did consider a plan of unification, I presume you have never gone into it fully, what per cent of labour would be displaced, 20 per cent or 25 per cent?

Mr. FAIRWEATHER: I am somewhat embarrassed.

Mr. WALSH: Judging from your experience with pooled channels.

Mr. FAIRWEATHER: As an economist, it is all labour, every cent of it. If you are talking of direct railway labour I would say it is between 50 and 60 per cent.

Mr. WALSH: Do you think we could run our two railways in Canada with 50 per cent to 60 per cent—

Mr. FAIRWEATHER: No, Mr. Walsh. You asked me what percentage of any theoretical economy would be labour.

Mr. VIEN: Take the number of employees on both railway systems.

Mr. FAIRWEATHER: I did not answer that question at all.

Mr. WALSH: I do not think it would amount to more than 25 per cent. Would it?

Mr. FAIRWEATHER: That is a very big question indeed, and I have had enough experience in answering questions like that to be careful because I have answered such questions and have found people to whom I did not give the answer misinterpreting what I said.

Mr. MAYBANK: There was one such answer circulating around for three or four years.

Mr. FAIRWEATHER: Yes.

Mr. WALSH: If there was a labour displacement by unification or some process of that nature, the natural decrease per year in the railway employees, naturally there is a replacement of 5 per cent per annum? Over a period of five years the retirements on the railways come to about 5 per cent per annum?

Mr. MAYBANK: Of course, it might be the retirement of a stenographer through marriage, but a displacement of a switchman.

Mr. VIEN: Could you give us a yearly average of retirements through normal conditions such as death, old age and disability and so on?

Mr. FAIRWEATHER: If you are speaking of our labour turnover figure, it is a very complicated matter, because a man will appear on the payroll, disappear from the payroll, and come back to the payroll again. You cannot give any simple figure that will express the labour turnover of the railway. If you refer to people who go out on pension and those who go out by death, I would venture an opinion that it would not run over 1 per cent.

Mr. MAYBANK: Add marriage to that.

Mr. FAIRWEATHER: I would not want to get into that.

Mr. VIEN: Would you not say there is more than 1 per cent superannuated or dying year after year?

Mr. FAIRWEATHER: That is about what I would say.

The CHAIRMAN: That amounts to about seven thousand a year.

Mr. FAIRWEATHER: Yes. Our normal staff of employees is close to 100,000, and 1 per cent of that is 10,000 people.

Mr. VIEN: 100,000? 1 per cent would be 1,000.

Mr. FAIRWEATHER: I beg your pardon. I have made a statistical error. The pensioners would run about 1 per cent, I would suppose; and I would not venture a guess at the deaths.

Mr. VIEN: There are some who are discharged for cause and there are some who die out, and there are some who are superannuated because they are injured or because they have reached the age limit. All these taken together represent what in terms of percentage of the total number employed?

Mr. FAIRWEATHER: I could not answer that offhand.

Mr. VIEN: Would you say that 5 per cent would be an exaggeration?

Mr. FAIRWEATHER: I could not answer that question offhand, sir.

Mr. MAYBANK: Talking of \$1,000,000 of saving, is that the annual saving effected by these various schemes?

Mr. FAIRWEATHER: Yes.

Mr. MAYBANK: So about \$600,000 of that is railway labour?

Mr. FAIRWEATHER: I would say so.

Mr. VIEN: The figure given was \$1,600,000.

Mr. MAYBANK: Sixty per cent of that is railway labour, and of course, generally speaking or in fact always, it is the junior man in the service who is displaced?

Mr. FAIRWEATHER: Eventually, yes.

Mr. MAYBANK: So that any such saving as that in a time of depression such as the present time would be effected by discharging persons probably least able to bear it.

Mr. FAIRWEATHER: They have a system they call "bumping."

Mr. MAYBANK: I am familiar with the term.

Mr. WALSH: In the saving—

Mr. MAYBANK: May I get an answer to my question before you interrupt, please?

Mr. FAIRWEATHER: The men have an expression they call "bumping." It arises out of seniority. If a man loses his job the fellow below him bumps down and so on until finally the fellow at the bottom is bumped off.

Mr. MAYBANK: And consequently the saving is always at the expense of the junior men?

Mr. FAIRWEATHER: Not always.

Mr. MAYBANK: It does not take long to bump along the line.

Mr. FAIRWEATHER: As a generalization I think it is correct.

Mr. MAYBANK: In these times I suppose it is pretty well known that there would not be in the case of most of our railway employees any great deal of savings amassed prior to such bumping until the bumping off of the junior man comes? You are not displacing a class of men who are well situated from the point of view of living on their savings?

Mr. FAIRWEATHER: I think that might perhaps be inferred.

Mr. MAYBANK: So that all these savings effected will immediately or ought immediately to result in payment of relief money by the government?

Mr. FAIRWEATHER: It is possible.

Mr. MAYBANK: Your deficit may be a little less and the relief bill a little higher?

Mr. FAIRWEATHER: That is possible, sir.

Mr. YOUNG: Very probable.

Mr. MAYBANK: Indeed is it not almost certain in times such as the present?

Mr. FAIRWEATHER: Of course we do not attempt to trace the personal circumstances of these employees out, but by influence I would say that there is a much greater chance of the junior men being less well off than the senior men.

Mr. MAYBANK: As a railroader of considerable length of service would you not agree that any of the savings in times of depression such as these can only be effected by relief money being paid out shortly after.

Mr. FAIRWEATHER: Well, there is certainly a danger there.

Hon. Mr. HOWE: How does he know that, Mr. Maybank? You are mixing the problem of unemployment relief with the problem of operating a railway. I do not think they have any relation.

Mr. MAYBANK: I know quite well I am mixing them. The saving definitely does the mixing, I am not doing it.

Mr. WALSH: In regard to that statement that \$1,600,000 were saved as a result of co-operation, I think the wrong deductions are being made. The deductions from the conversations of the last five minutes are that the saving was made at the expense of displacements as far as labour is concerned.

Mr. MAYBANK: Sixty per cent only.

Mr. WALSH: I would not say 60 per cent were actually discharged or bumped off completely in this process of co-operation.

Mr. FAIRWEATHER: Oh, yes. For instance, we reduced our train mileage; the two properties reduced train mileage 900,000 train miles.

Mr. WALSH: What became of these men?

Mr. FAIRWEATHER: Well they just simply did not have the work.

Mr. WALSH: Are you certain that some men were actually let out of employment?

Mr. FAIRWEATHER: I am certain. We would not have the economy if that were not the case.

Mr. MAYBANK: So the wage bill is less as a result of that?

Mr. FAIRWEATHER: Certainly; no doubt about that. I do not want to have any exact percentage tied on me. I gave an estimate of between 50 and 60 per cent railway labour.

The CHAIRMAN: Mr. Stewart has been trying to get in a word or two for some time. I suggest he have the floor.

Mr. MAYBANK: That is all I wanted to ask.

Hon. Mr. STEWART: I do not think I shall be very long either, as it is near six o'clock. I want to call the attention of the chairman of the board to a statement that appears in the press this morning which would indicate that there is apparently a real conflict between the statement made by the Leader of the Opposition in the house yesterday, and the statement made by the chairman of the board last night. The paper I have in my hand is the Morning Journal, and it says:—

Fullerton gives an explanation of C.N.R. deficit. Says cash figure \$47,000,000 when asked about \$115,000,000 mentioned by Bennett.

That is the heading of the article. Now, I have before me Hansard of yesterday and I am reading from page 2735, the statement made by Mr. Bennett. This is what Mr. Bennett said:—

Profit and Loss statement, system net loss, \$115,281,689.79.

That is comparing, I think, that figure with the \$47,000,000.

Hon. Mr. HOWE: Would you read all Mr. Bennett's remarks on the subject?

Hon. Mr. STEWART: The hon. gentleman dealt with the position of the provinces, but I am not going to do more than refer to another statement he made. He said we had two problems before us, the problem of unemployment and the problem of our railways. He made that abundantly clear and I do not think there is a member who differs from him. He then pointed out that we loaned the provinces \$116,500,000 and that that created a situation which required action and immediate action, too. I think most of us agree to that. But when he dealt with the railway question, he left it merely at the substitution of five directors for three trustees and referred to the bill.

Mr. MACKENZIE (Vancouver): Seven.

Mr. BENNETT: Yes, seven directors for the three trustees. He left it at that, with a reference to the bill which is now before the house. Let me point out that at page 18 of the Canadian National report there appears this interesting statement:—

Profit and loss statement, system net loss, \$115,281,689.79.

That is substantially the same figure as the money loaned to the provinces, but that was the loss for one year. The net loss for one year is \$115,281,689.79. The Minister of the Interior (Mr. Crerar) looks very much alarmed. If he will take the report and look up the statement he will see that it is as I have said.

Hon. Mr. HOWE: What is next?

Mr. CRERAR: Does that include interest?

Mr. BENNETT: No, that is merely the profit and loss statement.

Hon. Mr. STEWART: . . . the largest item being debits for retired road and equipment, \$29,000,000.

Mr. DUNNING: The budget deals only with cash deficits.

Hon. Mr. VENIOT: He included in that the interest on the government loans.

Mr. HANSON: What do you want to infer?

The CHAIRMAN: Let Mr. Stewart complete his statement.

Hon. Mr. STEWART: Let me make my statement and then you can go on where you like. Mr. Fullerton, the chairman of the board, in referring to it at the evening session made a reply to a question of Mr. Howard who said that the figure was alarming or shocking, or something of that kind. As reported in the *Ottawa Journal*, this is what happens:—

C. B. Howard (Lib., Sherbrooke) said that statement had been a shock to him, and he asked railway officials to explain it. C. P. Fullerton, chairman of the Canadian National board of trustees, said \$47,000,000 was a fair estimate of the cash deficit. Mr. Bennett, he said, had included a lot of things that should not have been included.

* * * * *

Mr. Fullerton said \$47,000,000 was the cash deficit and the other sums mentioned were book-keeping items. Some people he said, liked to pile up deficit to make the picture as bad as possible. That is why he had sought to cut out all deadwood.

Now is it not perfectly correct that the statement appearing in Hansard is actually as stated on page 18?

Hon. Mr. FULLERTON: There is no question that the Profit and Loss statement on page 18 shows a loss of \$115,000,000. But we say that \$47,000,000 is the correct cash deficit for the year for this reason, that this obsolete equipment which was scrapped might have been scrapped last year, the year before, or the year before that. You cannot apply it to the one year by any manner of means. In the second place we say interest on deficits should not be charged, and we say that interest on government loans should not be charged because it is shareholders' capital, and it should receive interest or dividends only if earned. That is our contention, rightly or wrongly.

Hon. Mr. STEWART: It is a matter of contention.

Hon. Mr. FULLERTON: Yes, purely so.

Hon. Mr. STEWART: The figure as shown on page 18 and as stated by the Leader of the Opposition is correct.

Hon. Mr. FULLERTON: Nobody denied that in the profit and loss statement there is shown a loss of \$115,000,000; there is no question about that.

Hon. Mr. STEWART: Then we have the difference of—

Hon. Mr. FULLERTON: There could be no question about that. I thought I made that statement last night.

Hon. Mr. STEWART: I have not the record.

Hon. Mr. FULLERTON: I made that statement last night.

Hon. Mr. STEWART: I have not got the record as printed. It appears to indicate a contradiction between you and the Leader of the Opposition in your statement.

Hon. Mr. FULLERTON: I think I said I was referring to the cash deficit.

The CHAIRMAN: The total deficit mentioned by Mr. Fullerton is \$115,000,000 but if you eliminate the items that he specially mentioned, the real deficit is only \$47,000,000.

Hon. Mr. FULLERTON: When I said that some people liked to pile up the deficit I was referring to the fact that people who are always criticizing us love to ring in this extra charge, the interest owing to the government, in order to pile it up as much as possible. Every newspaper who is in favour of amalgamation uses these figures. Others not opposed to it use cash deficit figures. That is what I was referring to.

Hon. Mr. STEWART: That is what you had in mind.

Hon. Mr. FULLERTON: That is what I had in mind clearly.

Hon. Mr. STEWART: There is no inaccuracy in the statement?

Hon. Mr. FULLERTON: No.

Mr. YOUNG: Mr. Chairman, let us have that statement again. It says that was the loss in one year.

Hon. Mr. FULLERTON: It was not.

Mr. YOUNG: If I read the statement correctly it is not the loss in one year.

Hon. Mr. FULLERTON: It is shown on the books as a loss in one year, but it is really not a loss in one year.

Mr. KINLEY: It is a cost to the Canadian people in one year.

Hon. Mr. FULLERTON: No, I say it is not a cost to the Canadian people in one year.

Mr. KINLEY: Why not?

Hon. Mr. FULLERTON: Take the \$26,000,000. We might have done, as has been done in the past. We might have done differently. We knew the \$26,000,000 was there and might have done nothing. We might have said nothing about it, left it and carried it as it was; but do you think that would be a wise thing to do? We did not think so.

Mr. WALSH: That \$26,000,000 over a period of five or six years should have been annually charged up, and it was not; it was left to accumulate.

Hon. Mr. FULLERTON: Mr. Hungerford—

Mr. WALSH: Until this year when we wrote off \$26,000,000. Then you go one step further. You borrow money from the government to meet certain fixed charges or deficits. If another railway company wanted to meet that condition they would have to borrow money elsewhere. They would have to pay interest on the borrowed money, so why should not the Canadian National have to pay interest?

Hon. Mr. FULLERTON: Because the government is the shareholder or owner of the property.

Mr. WALSH: I know, but you borrow money from the government and the government in turn has to borrow that money and has to pay interest and the interest is charged in the Finance department to the people of Canada who are actually paying for it; and in my judgment the Canadian National railways should show that in their books because the people of Canada are paying for it. That is my contention and that is what I have been trying to make as the actual loss and cost to the Canadian people, and I am trying to show that it was \$115,000,000 last year and not the \$47,000,000 or \$48,000,000 that you say.

Hon. Mr. FULLERTON: I claim it was not.

Hon. Mr. HOWE: That is not so.

Mr. WALSH: I claim it was because you have got to add that interest that the finance department are paying for the use of the money.

Hon. Mr. FULLERTON: May I inform you there are many many arguments against the legitimacy of that. Our accountants tell us it is wrong and improper accounting.

Mr. VIEN: It may very well be. I do not believe in any annual financial statement made by a company, the fact that the investment in the company in the form of debentures and capital stock returns no yield, it is not carried in the annual financial statement as an additional operating loss. That is quite true. But what we had in mind to try to set up is, what is the actual cost to Canada of carrying on this railway system? I think Mr. Walsh is right in stating if the statement that has been indicated to Mr. Fairweather is correct, that for the last thirteen years we have been pouring \$100,000,000 of new public money into the system, whether as Col. Smart has indicated it is shown by assets or not, there is an annual cash investment of \$100,000,000 poured by the public exchequer into the undertaking of the Canadian National Railways. Now this \$100,000,000 that is poured out of the public exchequer every year is borrowed somewhere. It must be borrowed somewhere. It does not grow like mushrooms in the fields, and the country pays interest on that amount of money, and although for the purpose of a proper balance sheet or a proper annual financial statement it may be properly taken that the interest on the cash investment of the government should not be added to the annual deficit, the real picture for the people of the country is that the money that has been invested by the Canadian people into the undertaking is costing the Canadian people an interest rate every year; and if you want to have an actual picture you should have added to your annual operating deficit the amount of interest that has been accruing from year to year to the Canadian people as a result of its cash investment.

Hon. Mr. HOWE: May I have a word in explanation?

Hon. Mr. STEWART: I did not want to start an argument of this kind. I wanted to make it clear that we were not dealing with the same item.

Hon. Mr. FULLERTON: Absolutely so.

Hon. Mr. STEWART: There is no difference between the items.

Hon. Mr. HOWE: May I make an explanattion of this position as I have seen it? We have been in the railroad business since we built the Intercolonial, and we have been operating at a loss. We put up the money for the deficits each year. Now, a man running a business and who had deficits would never put up money for those deficits in the form of bonds on which interest would be charged. What he would do would be put up money as common stock. We have been doing that every year we have been in the railway business. We have been making up the deficits. In the year 1933 we acknowledged our error and said we were not going to do this any more. We were not going to continue to capitalize money that we put in to keep the enterprise going, the enterprise we owned. We have been making up the deficits by a system of issuing bonds which is perfectly nonsensical, and we were thereby not accruing any assets, and there was no possibility of it producing any revenue. We stopped that in 1933. We said we were not going to fool the people of Canada or fool anybody else by borrowing money to meet that deficit, we are going to take it out of the consolidated revenue fund.

Hon. Mr. STEWART: The government had to borrow money to put into the consolidated revenue fund.

Hon. Mr. HOWE: At the moment we have got it in our budget. Now, that is the explanation.

Mr. WALSH: That is the point.

Hon. Mr. HOWE: In the meantime we piled it up about \$600,000,000 to date. Now, the C.N.R. cannot be expected to earn a profit on that.

Mr. VIEN: No. That is quite a question. The point is that if you, through taxation, take out of the public exchequer so many million dollars a year—

Hon. Mr. HOWE: We took out \$27,000,000 this year, the exact amount that it will really cost the country this year.

Mr. WALSH: Plus the interest on the money borrowed to put into the Canadian National, plus what the Canadian National had destroyed in this extra equipment.

Mr. VIEN: It is costing \$47,000,000.

Hon. Mr. HOWE: The extra equipment written off, yes; only when we wrote it off, we wrote it off in one year, where it should have been spread over a period.

Hon. Mr. STEWART: The public would understand by that heading that the two gentlemen were dealing with the same matter.

Hon. Mr. FULLERTON: The heading was quite wrong.

Hon. Mr. VENIOT: It is the newspaper's fault.

Mr. WALSH: Could I just confirm their figures that I have here? I understand from your computation that we inherited from the predecessor companies \$1,336,000,000 of debt. Is that figure correct? That is what we inherited when we took over this conglomeration?

Mr. FAIRWEATHER: Where do you get that figure?

Hon. Mr. HOWE: That is not correct.

Mr. WALSH: I got it from the Statistical department; from some book I have up in my office.

Mr. FAIRWEATHER: That purports to represent the total liabilities?

Mr. WALSH: The total liabilities when you took over the Canadian National Railways.

Mr. FAIRWEATHER: Including common stock?

Mr. WALSH: Including everything. That was your liability in taking over. That is correct?

Mr. FAIRWEATHER: I think, including common stocks, it is correct; yes.

The CHAIRMAN: There is a motion before the chair. Does it carry?

Some Hon. MEMBERS: Carried.

Mr. VIEN: In order not to cause the employees of the railway over-anxiety—

The CHAIRMAN: There is a motion before the chair that the report should carry. My suggestion is that we do carry the report and that we adjourn until four o'clock to-morrow afternoon. Then this statement that Mr. Fairweather is preparing upon the general statement which has been submitted by Mr. Vien may be taken up again to-morrow afternoon. In the meantime, we can carry this.

Mr. VIEN: What is the purpose of doing that?

The CHAIRMAN: To make progress; because we are travelling all over the shop at the preset time. But nothing will prevent you from doing it.

Mr. VIEN: Or any other question?

The CHAIRMAN: Anything you like.

Mr. VIEN: All right.

Hon. Mr. STEWART: Leave it wide open.

The CHAIRMAN: Certainly; because we have the Canadian Government Merchant Marine to deal with. You can ask anything you like.

Mr. VIEN: All right.

The CHAIRMAN: Shall we meet to-night?

Mr. VENIOT: No. It is Wednesday night.

The CHAIRMAN: I had forgotten that.

Mr. WALSH: It is better to meet as frequently as we can. These people are here away from their regular work.

The CHAIRMAN: Yes, I know. But to-morrow morning there is a caucus of the province of Quebec and Ontario. I do not mind if you gentlemen wish to sit to-morrow morning. I will be delighted.

Mr. WALSH: I think we should.

The CHAIRMAN: Eleven o'clock to-morrow morning, then.

Mr. VIEN: Is there much inconvenience in four o'clock in the afternoon?

The CHAIRMAN: There is a good deal, because there will be another committee. We will meet at eleven o'clock to-morrow morning.

The committee adjourned at 6.05 p.m. to meet again on Thursday, May 7, at 11 a.m.

APPENDIX

**Questions by members of the Committee and answers
thereto as filed by Mr. Fairweather**

QUESTIONS BY MR. VIEN

Question: Will you file a statement with the committee showing the relative importance of these shops from the point of view of the work done and the number of employees engaged? Perhaps you could also give the relative cost of the shops to the system?

Answer:

Location	Investment in land, bldgs. & equipment	Avg. No. of em- ployees year 1935
Moncton	\$3,000,000	1,087
Riviere du Loup	480,000	71
St. Malo	2,883,826	346
Pt. St. Charles M.P.	5,147,045	1,077
Pt. St. Charles Car.	2,239,368	820
Leaside	1,355,426	256
Stratford	2,292,352	797
London	1,073,963	493
Ft. Rouge	2,873,682	951
Transcona	3,942,601	1,327
Edmonton—South	1,727,721	92
Edmonton—Calder	820,007	47
St. Albans	912,873	223
Port Huron	982,000*	819

* Excludes land.

Question: Let us have the number of ties and the amount of money spent on ties for the last five years?

Answer: Statement No. 1 shows the number of cross ties purchased and the purchase price.

Statement No. 2 shows the number of cross ties treated under contract and the cost of treatment.

Statement No. 3 shows the number of cross ties used in replacement and the maintenance charge in connection therewith.

STATEMENT No. 1

CANADIAN NATIONAL RAILWAYS

ALL INCLUSIVE SYSTEM—INCLUDING SUBSIDIARIES

CROSS TIES PURCHASED

Year	Untreated		Treated		Total ties purchased	Purchase price
	Softwood	Hardwood	Softwood	Hardwood		
1931	3,369,128	783,184	—	171,190	4,323,502	\$2,907,290
1932	1,853,151	192,955	—	188,183	2,234,289	1,403,745
1933	1,743,527	691,458	—	165,084	2,600,069	1,377,344
1934	4,031,916	551,981	—	105,493	4,689,390	2,295,021
1935	7,319,684	977,870	118,528	369,546	8,785,628	5,070,764

NOTE:—Prices are f.o.b. C.N.R. tracks (except treated ties for Grand Trunk Western) but do not include inspection and sales tax.

STANDING COMMITTEE

STATEMENT No. 2

CANADIAN NATIONAL RAILWAYS

ALL INCLUSIVE SYSTEM—INCLUDING SUBSIDIARIES

NUMBER OF CROSS TIES TREATED AND COST OF TREATMENT

(Excludes ties purchased already treated)

Year	Softwood	Number of Ties		*Cost of Treatment
		Hardwood	Total	
1931.. .. .	750,105	1,176,690	1,926,795	\$1,300,972
1932.. .. .	605,477	900,285	1,505,762	997,542
1933.. .. .	708,078	652,713	1,360,791	884,859
1934.. .. .	757,813	438,777	1,196,590	832,542
1935.. .. .	862,658	926,336	1,788,994	1,111,180

* Cost includes preservative, processing, adzing, boring, incising, handling, inspection and sales tax.

STATEMENT No. 3

CANADIAN NATIONAL RAILWAYS

ALL INCLUSIVE SYSTEM—EXCLUDING SUBSIDIARIES

CROSS TIES USED IN REPLACEMENT

Year	No. of Untreated Ties	No. of Treated Ties	Total No. of Ties	Total Maintenance Charge
1931.. .. .	4,771,405	1,939,376	6,710,781	\$6,491,888
1932.. .. .	4,026,384	751,927	4,778,311	3,544,023
1933.. .. .	2,666,854	2,396,940	5,063,794	3,730,834
1934.. .. .	3,540,758	2,536,007	6,076,765	3,788,551
1935.. .. .	4,378,313	2,374,994	6,753,307	4,184,155

NOTE:—When treated tie is replaced with treated tie, total cost of treated tie is charged to maintenance.

MONTREAL TERMINALS

Question 1.—The estimated minimum cost of work on the Montreal Terminals Development required to make the facilities usable.

Answer: The minimum additional expenditure to make the Montreal Terminals Development largely usable for most passenger services other than those from Moreau Street is \$6,120,000. An additional expenditure of \$687,000 for coach yard facilities would be very desirable, although not absolutely essential. Including this item, the total expenditure to make this limited use of the facilities for passenger service would be \$6,807,000.

Question 2.—The estimated net savings in operating expenses to be derived from such completion and use.

Answer: Under present levels of traffic, the use of the new Terminals Development as limited above, and including coach yard facilities, the estimated net operating economy would be approximately \$50,000 per year.

Question 3.—How much of the above expenditure would be paid to labour?

Answer:

Wages paid to labour for construction ..	\$2,200,000	
Wages paid to labour as part of the cost of materials of construction.. .. .	1,400,000	
Total wages for construction and materials		\$3,600,000
Remote labour and services.. .. .		2,750,000
Interest and property (owned by Govt.)..		457,000
		<hr/>
		\$6,807,000

Question 4.—Does the management recommend that the above work be proceeded with?

Answer: The above figures would indicate that at present levels of railway traffic resumption of work could only be considered on the basis of providing unemployment relief.

Question:—Have you got a tabulation showing the differences in freight traffic density and passenger traffic density for the two railways over a period of years?

Answer:

CANADIAN NATIONAL RAILWAYS AND CANADIAN PACIFIC
RAILWAY SYSTEM (CANADIAN LINES)

FREIGHT TRAFFIC DENSITY—(1,000 REVENUE TON MILES PER MILE OF LINE)

Year	C.N.R.	C.P.R.	Per Cent C.P.R. Greater than C.N.R.
1923..	791	997	26·0
1924..	719	857	19·2
1925..	757	881	16·3
1926..	800	923	15·4
1927..	808	953	18·0
1928..	947	1,165	23·0
1929..	782	929	18·9
1930..	659	754	14·4
1931..	576	645	12·0
1932..	513	591	15·1
1933..	455	550	20·9
1934..	510	590	15·8
1935..	523	612	17·1
Average 13 years..	680	803	18·2

PASSENGER TRAFFIC DENSITY—(1,000 REVENUE PASSENGER MILES PER MILE OF LINE)

Year	C.N.R.	C.P.R.	Per Cent C.P.R. Greater than C.N.R.
1923..	65	92	42·2
1924..	61	85	37·7
1925..	62	86	38·8
1926..	64	84	32·3
1927..	66	84	28·0
1928..	68	86	27·6
1929..	61	77	25·0
1930..	51	62	20·6
1931..	36	44	23·0
1932..	29	38	32·5
1933..	28	36	30·0
1934..	30	40	33·0
1935..	32	41	24·7
Average 13 years..	50	66	30·9

INFORMATION REQUESTED BY MR. VIEN, M.P., MAY 5, 1936

	Average of 5 years 1926-1930	Average of 5 years 1931-1935
Income deficit after payment of Interest on Funded Debt..	\$ 9,542,000	\$56,075,000
Interest accrued on Loans from the Dominion Government..	\$32,497,000	\$35,229,000
	<u>\$42,039,000</u>	<u>\$91,304,000</u>

Question: Will you file a list of the off-line agencies together with a detailed statement in connection with that item of \$2,175,000 split up for each particular outside agency?

Answer: The following is a list of the outside agencies of the Canadian National Railways. It is not in the interests of the property to give the detailed information:—

On Line Uptown Ticket Offices—

Portland, Me.
Halifax, N.S.
Saint John, N.B.
Moncton, N.B.
New Carlisle, Que.
Quebec, Que.
Sherbrooke, Que.
Montreal, Que.
Ottawa, Ont.
North Bay, Ont.
Sudbury, Ont.
Parry Sound, Ont.
Brockville, Ont.
Kingston, Ont.
Belleville, Ont.
Peterboro, Ont.
Oshawa, Ont.
Toronto, Ont.
Hamilton, Ont.
Brantford, Ont.
Stratford, Ont.
Port Arthur, Ont.
Duluth, Minn.
Winnipeg, Man.

Off-Line Agencies—United States—

Boston, Mass.
New Haven, Conn.
New York, N.Y.
Philadelphia, Pa.
Washington, D.C.
Pittsburg, Pa.
Cleveland, Ohio.
Cincinnati, Ohio.
Birmingham, Alab.
Toledo, Ohio.
St. Louis, Miss.
Memphis, Tenn.
Tulsa, Okla.
Kansas City, Mo.
Omaha, Neb.
Milwaukee, Wis.
Minneapolis, Minn.
St. Paul, Minn.
Seattle, Wash.
Portland, Ore.
San Francisco, Cal.
Los Angeles, Cal.

Brandon, Man.
Regina, Sask.
Moose Jaw, Sask.
Saskatoon, Sask.
Calgary, Alta.
Edmonton, Alta.
Jasper, Alta.
Vernon, B.C.
Vancouver, B.C.
New Westminster, B.C.
Victoria, B.C.
Prince Rupert, B.C.
London, Ont.
Woodstock, Ont.
Guelph, Ont.
St. Catharines, Ont.
Buffalo, N.Y.
Windsor, Ont.
Detroit, Mich.
Flint, Mich.
Grand Rapids, Mich.
Saginaw, Mich.
South Bend, Ind.
Chicago, Ill.

Off-Line Agencies—Europe—

London, England
Liverpool, England
Southampton, England
Cardiff, Wales
Glasgow, Scotland
Antwerp, Belgium
Genoa, Italy
Paris, France

Off-Line Agencies—Oriental—

Hong Kong, China
Singapore, S.S.
Yokohama, Japan
Shanghai, China

Off-Line Agencies—Australia—

Sydney, Australia

NOTE:—The above off-line agencies are those at which full time employees of the Traffic Department of the Canadian National Railways are located.

QUESTIONS BY HON. MR. VENIOT

Question: Up to 1933 or 1934, 90 per cent of the car loadings of flour coming to Gloucester County came in C.N.R. cars. It is the reverse to-day, they are in C.P.R. cars. Why?

Answer: Percentages of cars of flour going into Gloucester County which were in C.N.R. cars:—

	Per cent
1933..	42
1934..	45
First 4 months of 1936..	27

The detail of the shipments shows them as arriving at many points, some served exclusively by the C.N., some exclusively by the C.P. and other from points jointly served. Generally speaking, if a car originates at an exclusive point the railway company on whose line the exclusive point is located furnishes the car.

Question: Does the Government own any wharves at Pointe du Chene, or is that upon transfer?

Answer: The railway wharves at Pointe du Chene were transferred to the Department of Public Works in 1930.

Question: Under the heading of Operating, what was the revenue from the Caraquet Branch of the Eastern Division for the year 1935?

Answer:

Gross earnings on branch line..	\$ 45,893
Gross earnings on rest of the System from traffic to and from Caraquet & Gulf Shore Ry.. . .	114,471
Total..	<u>\$ 160,364</u>

QUESTIONS BY MR. MAYBANK

Question: Could you file a table which would show the adjustments to the C.N.R. operating ratio in order to render it comparable to that of the C.P.R. for a period of years?

Answer:

	1923	1924	1925	1926	1927	1928	1929	1930
Operating Ratio of C.N.R.								
Lines in Canada.. . . .	97.6	94.2	88.5	84.3	89.1	83.6	87.5	92.1
Adjustments to make C.N.R. Ratio comparable with C.P.R. Ratio on a fair basis of Comparison.								
Express, Telegraphs, Pen- sions, Colonization, Na- tural Resources Ex- penses.. . . .	0.4	0.9	0.8	1.0	1.0	1.3	1.5	2.3
Average Haul.. . . .	1.7	1.4	1.0	1.1	1.7	1.9	1.6	1.4
Car Lading.. . . .	1.5	2.0	1.1	1.5	2.2	2.9	0.4	0.9
Freight Density.. . . .	6.8	5.5	4.3	3.7	4.5	4.4	4.7	4.5
Passenger Density.. . . .	4.2	4.3	3.7	2.9	2.8	2.2	2.5	2.6
Managerial Problems ..	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.9
C.N.R. Ratio as Adjusted..	82.0	79.1	76.6	73.2	76.0	70.1	76.0	79.5
C.P.R. Ratio.. . . .	80.7	79.6	77.3	76.0	78.9	75.8	77.7	77.4

	1931	1932	1933	1934	1935
Operating Ratio of C.N.R. Lines in Canada	100.0	96.0	96.7	92.5	93.4
Adjustments to make C.N.R. Ratio comparable with C.P.R. Ratio on a fair basis of Comparison.					
Express, Telegraphs, Pensions, Colonization, Natural Resources Expenses ..	1.4	2.5	0.1	0.1	0.1
Average Haul..	1.0	1.3	1.0	0.8	0.9
Car Lading..	1.1	1.6	1.7	1.3	1.9
Freight Density..	4.4	5.5	7.6	5.4	5.8
Passenger Density..	3.3	4.4	4.4	4.3	3.4
Managerial Problems..	1.2	1.4	1.6	1.4	1.4
C.N.R. Ratio as Adjusted..	87.6	79.3	80.5	79.2	79.9
C.P.R. Ratio..	80.0	80.7	78.3	77.3	80.0

Question: Could you give me the nature or the outline of the agreement at Winnipeg with reference to Fort Rouge shops?

Answer: Extract from memorandum of agreement dated October 20, 1906, between the city of Winnipeg and the Canadian Northern Railway Company:—

5. The Company further covenants and agrees with the city that it, the company, will build, establish and maintain forever upon the said lands shown on the said Exhibit "A" the principal buildings and workshops of its system, between Lake Superior and the Rocky Mountains, namely: Thirty-nine stall roundhouse, foundry, stores and offices, tank, machine and erecting shops, coach and paint shops, blacksmith's shop, freight and repair shops, lumber mill, power house, dry lumber shed, dry kiln, and the railway yards and sidings necessary for the business of the railway, thus making the city of Winnipeg the principal terminal point on its system between Lake Superior and the Rocky Mountains, this being one of the conditions of the closing of said streets and lanes or parts of streets and lanes. The work on the said buildings shall be commenced forthwith, and shall be completed within two years from the date hereof.

QUESTION BY MR. HEAPS

Question: What is the amount of extra employment last year in the Canadian National shops as a result of the extra repair work and the construction of new equipment?

Answer: On construction of refrigerator cars in the Company's shops 367 additional employees.

Additional employment in connection with repair work took the form of increasing the number of days employment to staffs working on short time, the employment in the Company's shops being extended from 16 to 18 working days per month.

QUESTION BY MR. CHARLES PARENT, M.P.

Question: What is the frontage, the size, the use and the leases in connection with the C.N.R. wharf at Quebec?

Answers:

Frontage: Approximately 3,000 feet.

Size: 59,612 square feet.

Use: Coal handling.

Leases: To Messrs. Lane & Robitaille.

QUESTION BY MR. KINLEY

Question: What was the operating loss on the Halifax and South Western Railway for the year 1935?

Answer: \$478,752.

NOTE.—This is without consideration to the earnings on the balance of the System of traffic moving to and from the Halifax and South Western.

QUESTION BY MR. FINN

Question: May I ask if the officers of the C.N.R. would prepare a statement of the operating costs and operating revenue of the Atlantic Region for the past year?

Answer:

Operating Revenues..	\$ 16,280,000
Operating Expenses..	19,446,000

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Canada Railway and Shipping
Standing Committee on 1936

SESSION 1936

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government



MINUTES OF PROCEEDINGS AND EVIDENCE

With Appendices 1 and 2

No. 5

THURSDAY, MAY 7, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees; Mr. J. E. Labelle, K.C., and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

OTTAWA

J. O. PATENAUDE, I.S.O.

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1936

MINUTES OF PROCEEDINGS

THURSDAY, May 7, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government, met at 11 a.m. The Chairman, Sir Eugene Fiset, presided.

Members present: Messrs. Barber, Bothwell, Ferland, Hanson, Howe, Kinley, Parent (*Quebec West and South*), Stewart, Veniot, Vien and Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. F. K. Morrow, and Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways; Mr. V. I. Smart, Deputy Minister of Railways and Canals; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Mr. S. W. Fairweather, Director, Bureau of Economics, and Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.

Mr. Fairweather reported that the statement submitted at the previous meeting by Mr. Vien and referred to him for study and report, had been sent to Montreal to be checked with office records.

Ordered, That the Clerk have the statement printed in this day's proceedings with Mr. Fairweather's comments thereon.

Hon. Mr. Veniot read a telegram addressed to him by Mr. Charles C. Labrie, Vancouver with respect to tie contracts.

Mr. Vaughan and Mr. Labelle made statements dealing with the matter referred to by Mr. Labrie.

After further discussion on the capital structure of the Canadian National Railways, the committee proceeded with the consideration of the Annual Reports of the Canadian Government Merchant Marine, Ltd., and the Canadian National (West Indies) Steamships, Ltd.

On motion of Mr. Bothwell,

Resolved, That the said reports be approved.

Some further questions having been asked Mr. Fairweather by members of the committee.

Ordered, That these questions and answers thereto be printed as an appendix to this day's proceedings.

Erratum: On page 169 of the proceedings (Appendix to No. 4 of the printed record) Mr. Fairweather requests that the following correction be made in his answer to a question by Hon. Mr. Veniot, viz,—

In line 10 which reads,

The detail of the shipments shows them as arriving at many points . . .

delete the word "at" and substitute "from," the answer to read,—

The detail of the shipments shows them as arriving from many points . . .

The Committee adjourned to meet again at the call of the chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

Room 268,

May 7, 1936.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, Sir Eugene Fiset, the chairman, presided.

The CHAIRMAN: I think we shall proceed. Gentlemen, the statement that was tabled yesterday by Mr. Vien has been handed over to Mr. Fairweather, but he was compelled to send it to Montreal for verification, and therefore we are not in a position to deal with it this morning. We shall take it up at the next meeting. In the meantime we shall go on with the merchant marine.

Mr. YOUNG: I wonder if we might have a statement on another matter before we leave that. I want to inquire a little further into this capital structure. As I look into the matter it seems to me we have what the chairman of the board described as a tremendous amount of dead wood. We listened yesterday to something about litigation. That seems to be another excuse, or reason perhaps, for delaying dealing with this matter which I have in mind. I was about to ask yesterday if the board thought this matter should be dealt with by eliminating a lot of the dead wood, and one member of the board stopped me at that point. Now I want to go back to where he stopped me, and ask him whether or not it is his opinion that we should clear up a lot of the dead wood in this Canadian National structure.

Mr. LABELLE: That matter came up before the committee last year, and I differed with the opinion of the chairman of the board last year. The minister may have something to say on it.

The CHAIRMAN: Yesterday I dared speak for the minister to a certain extent, in his absence. I did not go far, I did not compromise you, sir. Perhaps you can tell us if the Government intends to take the matter up this year or not. That is what the committee wants to know.

Mr. YOUNG: I was not asking about governmental policy. I was asking those who have charge of this road how they find the financial structure and whether or not it is a structure that should properly be there, and if it should not properly be there, how in their judgment it might be separated, and how it should be chargeable to the road at the present time; because I notice from time to time those who are not much interested in the making of a very good picture by the Canadian National Railway constantly refer to certain items of this kind, when in fact, in my judgment, the present management of the road or any future management of the road cannot be expected to cope with the present financial structure and make a showing on any financial return that may be submitted here. It cannot be done, in my judgment, and I feel whether I am right or wrong, that there is so much in there accumulated from one source to another—I am not apportioning the blame to anyone, but still it is there—and I want to know whether in the interest of this road, in the opinion of those who have been managing it for the last few years, much of it should be eliminated.

Hon. Mr. STEWART: Are we not concerned with practical things? What effect would that have upon the finances, the operation and the revenue of the road? They are not paying any interest on the capital structure.

The CHAIRMAN: This question comes up before the committee yearly. There is no doubt about it that last year we had a report from the auditors, Touche and Company, on the subject matter. It was referred to and approved by the board of trustees, and it was submitted to the cabinet. That is what I understood.

Mr. LABELLE: No; the chairman of the board personally favoured that report last year, but I stated this, that the Duff report asked the trustees to set up a capitalization based on the earning power of the road, which is a different matter altogether. Now the trustees in the Duff report were asked to prepare recommendations. I would think it is a matter of government policy rather than the opinion of the board, unless we were asked to make a special report. The matter was studied last year, and has been studied this year. It is a very complicated affair.

Mr. YOUNG: I understand that.

Mr. LABELLE: I would not say I do not favour taking out the dead wood. That would be nonsense on my part, but I say it is rather a question of government policy, because anything we do must have government consent.

Hon. Mr. VENIOT: No doubt the government, before adopting a policy, would consult the board.

Mr. LABELLE: Yes.

Mr. YOUNG: I take it you are not prepared to give us a very definite opinion on a matter of this kind.

Mr. LABELLE: If it is a question of whether or not the dead wood should be taken out of the balance sheet, I would imagine it would be better out, but would it be sufficient to give you a real picture of the Canadian National

Mr. YOUNG: Would you care to express an opinion, Mr. Morrow?

Mr. MORROW: I expressed the opinion the other day that the capitalization is excessive, and should be very materially reduced.

Mr. VIEN: Have you been able to appreciate the value of the whole undertaking on the basis of earning capacity?

Mr. LABELLE: We have had no survey made to that effect, but I may say that the Duff report showed that the earning power of the railway in 1923, up to the time of the report or the year before, was about \$24,000,000 odd. That is in the Duff report.

Mr. VIEN: Yearly, net?

Mr. LABELLE: Average.

Mr. VIEN: Net average?

Mr. LABELLE: Yes.

Mr. VIEN: It would represent on the basis of four per cent some \$600,000,000. That would be the value of the road on that basis.

Mr. LABELLE: It is not said in the report that that is the value. The report states that was the average earning power of the Canadian National. It is a difficult matter to answer that question, Mr. Vien. You may have a potential value over the earning power.

Mr. VIEN: Yes. I am not suggesting that the earnings of the railway at the present time would be a good foot rule to estimate the exact value of the system; but you can take three or four methods of approaching the problem, and if you take the method of the earning capacity of the system, eliminating the abnormal years that have passed since 1932 you would find that the earning capacity of the system is \$24,000,000.

Mr. LABELLE: That is reported by the Duff Commission.

Mr. VIEN: Therefore on the basis of the earning capacity the value of the system would be something like \$600,000,000. But as you mentioned there are potential values which are not reflected in the earning capacity.

Mr. LABELLE: I contend there is a great potential value.

Mr. VIEN: Is there any possibility of coming to something like a fair approximation of what this potential value is?

Mr. LABELLE: That is what everybody in the Canadian National Railways is trying to find out. The Minister declared the other day that they were trying to arrive at some conclusion. I might say the Canadian National appointed a committee this year, which is working on this matter. We are not ready to make a recommendation just yet, and even if we did I think personally it is a matter of government policy.

Mr. VIEN: I appreciate that. I am not suggesting that any member of the staff or any member of the board of trustees should make a suggestion as to whether we should or should not, but we are a fact-finding body, and we shall make a recommendation. As a fact-finding body I should like to find out something, not as a matter of suggestion or policy, but as a matter of fact, what would be the fair estimation of this potential value.

Mr. MORROW: You can only arrive at that after you have had a very careful survey of the property by people in the Canadian National, by the Department of Railways and Canals, and perhaps by one or two outside men.

Mr. VIEN: Has this been done?

Mr. MORROW: Not to my knowledge.

Mr. YOUNG: Potential value depends on far more than physical assets, as I take it. I do not know how any man can answer that question just now. It might depend on the whole trend of the country.

Hon. Mr. STEWART: Unless he can see farther ahead than any of the rest of us.

Mr. YOUNG: While it may be clear to Mr. Vien, it is not clear to me, because if we had a great revival of trade in this country the potential value of the road would be very different from what it would be if there were a slump in business worse than we have ever had.

Mr. VIEN: It is not clear to me at all.

Hon. Mr. HOWE: Would you let me make a statement on what we discovered to date? There are certain items there that ought to be eliminated. I may point out that the study I have made so far is purely to change the picture; it is not going to make one dollar more for the Canadian National. We have studied the problem from that viewpoint, adjusting it in the Dominion government account. Looking at the balance sheet we find there is an item there for \$165,000,000 for Grand Trunk stock, which of course cost the government exactly zero, and which should not be in the balance sheet. On the other hand there is a case before the Privy Council which is not decided, and which is an application to place that stock back on the register of the company. If that case goes against us, it is going to change the situation as regards that stock. How shall we deal with it? We shall have to get expert legal advice on that matter. That is a complicated item. Then there is an item of \$100,000,000 for Canadian Northern railway stock that cost this government \$10,000,000 and \$10,000,000 is the item that should be there. There is no argument about that. Then you have advances for deficits and interest thereon. Now, obviously that is not money that should be bonded. It added nothing to the earning power of the railway; it simply kept the railway from closing down. It really should be changed from a bond position to a stock position. Obviously its proper status is common stock instead of bond. Now,

you can do these things and get a proper balance sheet, but the difficulty is that there are situations there that really affect the load of the railroad on the government, really affect the earning power of the road, and they are the junior securities, the status of which has never been determined. I may say to the committee we have had a meeting, and the position as we see it is this: The position of those junior securities must be attacked vigorously this year and definitely worked out, and a year from now we hope to be in a position really to adjust the balance sheet, but we cannot do it this year.

Mr. YOUNG: I recognize full well, by transferring this to another place may not relieve the country—

Hon. Mr. HOWE: There are items there that should be attacked that may relieve the country, because the position never has been determined. We hope to determine that.

Mr. YOUNG: The interest rate charged there is charged on a six per cent basis.

Hon. Mr. HOWE: It has not been paid, and therefore does not affect the position.

Mr. YOUNG: It affects the picture.

Hon. Mr. HOWE: It is shown as bonds, and it should not be bonds, in my opinion. We can change that but it still would not change the real position of the railroad. We can make other changes that will affect the earning power of the road.

Mr. BOTHWELL: The interest charge each year does affect the picture.

Hon. Mr. HOWE: On the debt to the public.

Mr. BOTHWELL: Yes, interest on the debt due to the government.

Hon. Mr. HOWE: It is charged on the books of the government, but it is charged as a government asset. The point I am making is this: We do not pay it; it does not cost the government anything in real cash; it is not a cash charge against the government and we did not pay it. There is no argument that it should not show as bond interest. It is not bond interest; it is common stock interest and payable when earned. That is all you can say for it, and it should be charged that way in the balance sheet. There is no argument against it.

Hon. Mr. VENIOT: The \$100,000,000 of the Canadian Northern, does that represent stock or bonds?

Hon. Mr. HOWE: It is stock, but it should not be there, because in any case it is only \$10,000,000. We should not show \$100,000,000 of assets where we only invested \$10,000,000.

Mr. YOUNG: As I take it the minister is looking into this matter very carefully, and next year we will have a report. That satisfies me, because I am satisfied this picture is all wrong and must be corrected.

Hon. Mr. HOWE: With the best of intentions I have gone into this thing from the first day I took office. I thought we could do something this year to straighten out this picture, but I find we cannot. That is about the position we are in.

Mr. VIEN: I do not think the committee should take the queries of the members of the committee as regards the expediency of recapitalization or the advisability of recapitalization, because a proper capitalization of the railway should involve everything that should be retained on the basis of normal earning capacity of the railway. Otherwise you will find that if you reduce your capitalization too much in prosperous years, there will be a tendency to ask unfair reduction of rates. If you strike out from the capitalization of the railway some of that money you do not cause it to disappear, you simply transfer it from the capitalization of the Canadian National to the national debt of Canada, and you shift the burden from the shoulders of the railway users to the shoulders of the ordinary taxpayer of the country.

Hon. Mr. HOWE: I may say any change we propose to make would not have that effect. For instance, moneys advanced and the interest thereon are not carried on the government accounts as active assets, in other words, written off government account.

Mr. VIEN: It may well be in times to come with the development of the country and an increase in the earning capacity of the railway that the system may be able to pay interest on much of the advances made by the Canadian government to the system, and that should be taken into account.

Hon. Mr. VENIOT: Mr. Howe, would it not be better whatever the earnings are over and above the sum necessary to pay the interest due the public, to reduce the debt by a sinking fund, and in that way you would have something to pay off these bonds on maturity.

Hon. Mr. HOWE: We have considered that question very seriously.

Hon. Mr. VENIOT: In 1928 there was some \$8,000,000 over the amount necessary to pay the interest due to the public, and instead of being put into an account to reduce the bond issue, it was put into capital account and expended as such and that much less was drawn from the government treasury.

Hon. Mr. STEWART: That is where it ought to go.

Mr. YOUNG: Mr. Vien suggested the minister should not take into consideration the suggestions of the members of the committee with regard to striking out these items.

Mr. VIEN: I did not say that. I said the queries on recapitalization should not be construed as a recommendation from the members—I am speaking particularly for myself—. I have put several questions in respect of recapitalization and the expediency of recapitalization. I do not want the committee to take this as a suggestion that recapitalization is in order, so far as I am concerned.

Mr. YOUNG: That is quite all right, if Mr. Vien puts it that way, that he is expressing his own opinion. I want to give my opinion, and in my humble judgment this should be attended to, and attended to forthwith. The minister has suggested to the committee that he is taking it into consideration this year, and that satisfies me.

The CHAIRMAN: As far as this committee is concerned I think it is the consensus of opinion that this committee should not make any recommendation this year, because we have neither the facts nor the data upon which to express such opinion. Therefore we shall accept the Minister's statement that he has the matter in hand, and I am quite sure that when the recapitalization takes place this committee will be consulted.

Hon. Mr. HOWE: Yes.

Hon. Mr. STEWART: The matter of recapitalization is one item and the consolidation of all these one hundred or more companies that are now embraced within the circle of the Canadian National Railways is another. It would be advisable, I think, if the whole thing could be considered at the same time. Instead of making two bites at the cherry we could bring them all together in one scheme and clean up the consolidation of these companies, and the recapitalization would be desirable.

Hon. Mr. HOWE: Yes. We shall see how far we can go with that.

The CHAIRMAN: Mr. Vien, the statement you handed over to Mr. Fairweather yesterday has to be sent to Montreal for verification, and when we have the next meeting, even if it is simply to consider the report, these papers will be before you and the members of the committee.

Mr. VIEN: Thank you.

Hon. Mr. STEWART: There are some questions I wish to ask the chairman of the board of trustees and the president Mr. Hungerford. I would

not require the officers here. If it is understood that I may ask those questions, if I decide to ask them, after all these matters of detail are cleared up, I shall not delay the committee now.

Hon. Mr. VENIOT: I am coming back to the ties, and the reason I am doing so is because since I brought the matter up here in the committee there has been circulated a rumour—I do not know whether there is any foundation for it or not—that I think should be cleared up. This rumour comes all the way from British Columbia. I see Mr. Vaughan and Mr. Labelle present, and their names are connected with the rumour, and in order to clear the matter up I am going to ask Mr. Vaughan this question first: Did you receive last year a protest from anyone in British Columbia as to the manner in which tie contracts were given out in that province?

Mr. VAUGHAN: I do not recall receiving any protest, Mr. Veniot, but we get so many hundreds of letters in the tie business that I could not recall them all.

Hon. Mr. VENIOT: Were you out to British Columbia last year, last fall?

Mr. VAUGHAN: I go to British Columbia every year.

Hon. Mr. VENIOT: While you were there did you get any complaints that you remember?

Mr. VAUGHAN: No.

Hon. Mr. VENIOT: You do not remember?

Mr. VAUGHAN: No.

Hon. Mr. VENIOT: Probably this will refresh your memory,—that contracts were being given to parties who under the Independence of Parliament act should not have received them.

Mr. VAUGHAN: It was never drawn to my attention.

Hon. Mr. VENIOT: Now, Mr. Labelle, I am asking these questions not as a matter of criticism but in order to clear it up.

Mr. LABELLE: Quite so.

Hon. Mr. VENIOT: I have here a telegram, the contents of which are very serious indeed. I am not going to give the details to the committee, but I will base my questions upon it, because I think the matter ought to be cleared up.

Mr. LABELLE: I am quite villing to answer any questions you may ask.

Hon. Mr. VENIOT: Did you receive any complaints such as I have referred to as to the manner in which tie contracts were awarded in British Columbia? Do you remember that some person or persons offered to put up a deposit of money towards the expense of an investigation and exposure of this matter?

Mr. LABELLE: I do, sir. Would you give to the committee the name of the party to whom you refer?

Hon. Mr. VENIOT: No, not just now.

Mr. LABELLE: I referred the matter to the purchasing department, who made inquiry, and I was satisfied with the letter that I received from the purchasing department.

Hon. Mr. VENIOT: That there was no foundation for the allegation?

Mr. LABELLE: I relied upon the information given to me by the purchasing department.

Hon. Mr. VENIOT: Of course, this is rife out in British Columbia still.

Mr. LABELLE: That was a party from Vancouver who was connected with the Canadian National Railways before he was dismissed.

Hon. Mr. VENIOT: I will give the name now since you have gone so far: Charles C. Labrie. I do not know the man at all nor his standing, but I received this telegram this morning:—

" VX VANCOUVER, B.C. May 6th

The Honourable P. J. VENIOT

Parliament Bldgs., Ottawa, Ont.

Have read press report on your complaint in committee regarding farming out tie contracts which I endorse stop contracts placed here given ministers of crown and politicians stop Vaughans handling this matter open strongest criticism stop last year I wrote Bennett and Labelle regard this deplorable situation and sent facts to them with offer I deposit ten thousand dollars towards expense investigation and exposure these matters stop suggest you ask for said correspondence...

I do not intend to do that.

Hon. Mr. HOWE: Who signed the telegram?

Hon. Mr. VENIOT: Charles C. Labrie.

Hon. Mr. HOWE: A dismissed employee.

Hon. Mr. VENIOT: That may be so. This telegram was sent to me by Mr. Labrie whom I do not know, and the rumour is rife in Vancouver and around there, so I thought it was proper that I should bring it up and give the board an opportunity of making a statement about it this morning.

Mr. VAUGHAN: I would like to say that Mr. Labrie has been making statements for seven or eight years, all of which have been investigated and not one of which has been found to be true. He was discharged for good cause by myself, and he is trying to bring up the usual things that a discharged employee does bring up. If the committee wants to learn about Mr. Labrie's reputation in Vancouver they will not have to go far to learn about it.

Hon. Mr. VENIOT: I do not think anything should be said here to injure the reputation of anyone who is absent from this committee.

Mr. YOUNG: Labrie is charging somebody.

Hon. Mr. VENIOT: He is charging the very men who are here and who are able to defend themselves, but he is not here.

Mr. LABELLE: I received a telegram in Montreal to meet Mr. Labrie, of whom I had never heard before. He told me a story about contracts in Vancouver. I referred the matter to Mr. Vaughan because I do not know any of the contractors for ties in British Columbia. I asked Mr. Vaughan to make a report on that protest. Mr. Vaughan sent me a report, and I was satisfied with the report of the vice-president of the purchasing department. Otherwise I would have made a complaint to the board.

Hon. Mr. VENIOT: I am glad to get that statement, because it will put an end to this sort of thing.

Mr. YOUNG: Since we have gone so far with it, what are the allegations? I think they may create a great deal of suspicion here.

Hon. Mr. HOWE: Labrie has also written to me. I have looked into the matter through friends of mine in Vancouver in whom I have confidence, and I have been told that Labrie is a thoroughly bad actor, and that nothing he might say in connection with the Canadian National Railways, from whose service he was dismissed for good cause, should be taken into consideration.

Mr. YOUNG: There are a lot of lawyers idle in Vancouver, and apparently Labrie wants to give away \$10,000!

Hon. Mr. FULLERTON: I do not think Labrie ever saw \$10,000.

The CHAIRMAN: Is that all, gentlemen?

Hon. Mr. VENIOT: I merely brought the matter up because I thought it was proper to do so.

Mr. LABELLE: As far as I am concerned you brought it up properly.

The CHAIRMAN: Shall we go on with the Canadian merchant marine?

Mr. VIEN: If the committee will tolerate a repetition, on page 27 there is a statement of the funded debt—principal and interest, and the due dates of the bonds are given there. I wanted to ascertain whether in any of these bond issues there was a clause whereby they might be redeemable before the due date on certain terms and conditions.

The CHAIRMAN: Can you answer that question, Mr. Fairweather?

Mr. FAIRWEATHER: Yes, there are some that are callable, and the subject of refunding of callable bonds has been one that has been carefully looked into. As a matter of fact, heavy refunding operations took place in 1935 as the result of that situation.

Mr. VIEN: I see large blocks of $6\frac{1}{2}$ per cent and 7 per cent and 5 per cent. Should they not in those cases be converted into lower interest rate-bearing bonds?

Mr. COOPER: All those 7 per cent bonds were called last year and have been retired.

Mr. VIEN: They are still shown.

Mr. COOPER: No.

Mr. VIEN: On page 27 you show $6\frac{1}{2}$ per cent sinking fund debenture bonds. \$24,238,000, due July 1, 1946.

Mr. COOPER: The 1946 bonds are not callable, but the 1940 bonds were retired and the statement shows that on December 31, 1935, there was not any of them outstanding.

Mr. VIEN: Attention is being given to that.

Hon. Mr. FULLERTON: Oh, yes. All those callable bonds are being attended to.

Hon. Mr. VENIOT: Are we still on the annual report?

The CHAIRMAN: Yes. We agreed yesterday that a general question could be put.

Mr. VIEN: I see there is no possibility of converting those first four categories, they are not callable?

Mr. COOPER: The fifth item, the 4 per cent perpetual guaranteed stock, is callable.

Hon. Mr. STEWART: In what funds are they payable?

Mr. COOPER: Sterling.

Hon. Mr. STEWART: That would involve a premium on the dollar?

Mr. COOPER: Yes.

Hon. Mr. STEWART: How much is the premium now?

Mr. MORROW: About 2 per cent.

Hon. Mr. STEWART: It fluctuates.

Mr. VIEN: Yes. It is said that the premium is paid once and for all and that the rate of interest is materially lower than the Canadian government could borrow at, at 3 per cent or say 2 per cent.

Mr. COOPER: That, of course, involves the consideration whether you could go on to the London market and borrow \$60,000,000.

Hon. Mr. VENIOT: I know that in the last annual report submitted here there is nothing to show the amount of money invested in what is known as the old Intercolonial railway, either on capital account or on deficits up to 1919 when it became a part of the railway system administered under an order passed in 1919 by the directors of the Canadian National Railway. I want to know where the charges are against the Intercolonial railway so-called.

Mr. COOPER: If you look at page 17 you will find an item which represents the investment of the Dominion of Canada in Canadian government railways at the time they were transferred to the Canadian National railways.

Mr. VIEN: Under what caption?

Mr. COOPER: "Dominion of Canada Expenditures for Canadian Government Railways."

Mr. HANSON: About half way down on page 17.

Hon. Mr. VENIOT: Does that include the original cost and the deficits in operation paid for by the Dominion government up to 1919?

Mr. COOPER: It includes the capital expenditures but not the deficits. The deficits, as I understand, are absorbed through the consolidated revenue fund.

Hon. Mr. VENIOT: You could not tell me what the capital expenditure was?

Mr. COOPER: It is shown there: \$388,290,294.40.

Hon. Mr. VENIOT: That is not for the Intercolonial railway.

Mr. COOPER: The Intercolonial separate from the Dominion government Railways?

Hon. Mr. VENIOT: Yes.

Mr. COOPER: You can find that information in the annual report of the Department of Railways and Canals, where this item is separated.

Hon. Mr. VENIOT: Thank you.

Mr. YOUNG: Is there a sinking fund account kept by the Canadian National Railways?

Mr. COOPER: In connection with our bonds?

Mr. YOUNG: Yes.

Mr. COOPER: Yes. Some of our bond issues have sinking fund provisions. You will find that on page 16. There is an item there of \$11,921,666.97 representing sinking funds created against the maturity of our system securities which are presently outstanding in the hands of the public.

Mr. YOUNG: \$11,000,000?

Mr. COOPER: Yes. There are very few of our issues that have sinking fund provisions; they all relate to the time prior to the time of government control.

Mr. VIEN: What form does that sinking fund take? How do you carry it?

Mr. COOPER: The funds are invested in securities. The statement shows that \$6,814,920.90 is invested in our own system securities, and they are carried in the books at par. The balance of the \$11,000,000 odd which is \$5,106,746.07 is invested in securities other than those of the Canadian National Railways. There may be some small cash balance awaiting re-investment.

The CHAIRMAN: Shall we go on to the Canadian Government Merchant Marine Limited?

Mr. VIEN: We shall not adopt the report now?

The CHAIRMAN: No. Page 4, consolidated balance sheet. Mr. Fairweather, will you take that up, or will Mr. Hungerford do so?

Mr. HUNGERFORD: Mr. Cooper will take it up.

Mr. COOPER: The consolidated balance sheet of the Canadian Government Merchant Marine Limited and subsidiary companies as at 31st December, 1935:—

ASSETS

Investments:—Vessels as at 31st December, 1935—\$18,168,022.92.

That represents the cost of ten vessels which remain in the merchant marine service, and the average cost is about \$205 per dead-weight ton.

Mr. BOTHWELL: That includes the Canadian Planter?

Mr. COOPER: Yes.

Mr. BOTHWELL: How much was it valued at?

Mr. COOPER: It was included in that item of \$18,168,022 at \$1,601,000. That is its cost, not its value.

Mr. VIEN: That is a cumulative investment? Is it the total investment for all time, including the original investment, by the Canadian Government Railways into shipping?

Mr. COOPER: No, it does not include any of the original ships which have been disposed of. It represents the original cost of the vessels that still remain in service.

Mr. HANSON: Would the Minister tell us what he got for selling them?

Hon. Mr. HOWE: For the Canadian Planter, \$40,061. We sold ten boats for a total of \$419,000, roughly \$40,000 each.

Mr. VIEN: Are those the ten boats shown on page 9 of the report?

Hon. Mr. HOWE: Yes.

Mr. VIEN: All of them?

Hon. Mr. HOWE: Yes.

Mr. VIEN: For a total sum of \$419,926?

Hon. Mr. HOWE: Yes. We shall not be able to deliver the Canadian Planter. I understand it is a total loss.

Mr. KINLEY: Are they going to salvage the Canadian Planter?

Hon. Mr. HOWE: I understand it is a total loss.

Hon. Mr. FULLERTON: We are holding an investigation now into the matter of the Canadian Planter.

Hon. Mr. VENIOT: Was the Canadian Planter insured?

Hon. Mr. FULLERTON: Yes.

Mr. KINLEY: Is there any question about the liability?

Hon. Mr. FULLERTON: Yes, a serious question. Our opinion is that the other ship was at fault.

Mr. VIEN: Is there a special fund set aside for insurance?

Hon. Mr. FULLERTON: Yes.

Mr. LABELLE: \$986,154.

Mr. VIEN: It is shown on page 5.

The CHAIRMAN: Proceed, Mr. Cooper.

Mr. COOPER:

Plant and equipment	\$13,308 01	
Office furniture and fixtures	46,573 34	
Current—		
Cash in banks	851,732 93	
Accounts Receivable	132,617 13	
Due by agents—net	320,446 11	
Advances to captains, crews and agents . .	44,539 35	
Inventories of stores and supplies	29,290 70	
Amounts due from Canadian National		
Railways Joint Insurance Fund	140,449 18	1,519,075 40
Deferred Assets		81,349 16
Canadian National (West Indies) Steamships, Limited,		
Advances for Capital Expenditures and Operating		
Losses		117,986 47

Equity in Canadian National Railways Joint Insurance Fund, represented by securities held.. . . .	986,154 01
Discount on capital stock	100,000 00

LIABILITIES

Capital Stock—		
Authorized		
10,000 shares of \$100.00 each	1,000,000 00	
Issued—		
6,609 shares of \$100.00 each	660,900 00	
Less—		
Cancelled 5,606 shares of \$100 each .. .	560,600 00	100,300 00
Dominion of Canada Account—		
Notes payable secured by mortgages on vessels	18,118,838 42	
Advances—		
Capital.. . . .	47,204 94	
Working capital.. . . .	765,762 27	
Deficits.. . . .	9,473,479 06	10,286,446 27
Interest Accrued unpaid.. . . .	21,821,099 67	
		50,226,384 36
Accounts Payable		339,074 34
Passage Money paid in advance		133,843 37
Balances of uncompleted voyages.. . . .		279,511 37
Reserve for insurance claims		49,076 30
Deferred liabilities.. . . .		80,000 00
Insurance reserve		986,154 01
Accrued depreciation—vessels.. . . .		10,473,542 32
Profit and Loss—Deficit.. . . .		41,635,416 76

The CHAIRMAN: Before leaving the balance sheet I think the chairman of the board has some interesting figures as to the operation of both services.

Hon. Mr. FULLERTON: I have the figures to the end of March for the merchant marine. We estimated an operating profit of \$15,388 and we had an operating profit of \$78,000 which is \$56,000 better than last year. I may as well give you the figures for the West Indies service. This year we estimated for the first three months a loss of \$15,000 and, as a matter of fact, we have a profit of \$98,000.

Mr. YOUNG: You are speaking, of course, of an operating profit?

Hon. Mr. FULLERTON: Operating profit entirely, at the end of March, \$98,000.

Hon. Mr. VENIOT: The end of March this year?

Hon. Mr. FULLERTON: Yes.

Mr. KINLEY: I suppose the western service pays much better than the eastern service?

Hon. Mr. FULLERTON: Yes, I should say so.

Mr. VIEN: Is your fiscal year the calendar year?

Hon. Mr. FULLERTON: Yes.

Mr. VIEN: Therefore \$98,000 is from the 1st January to the 31st March?

Hon. Mr. FULLERTON: Yes. Last year we had a deficit of \$34,000 up to the end of March and this year we have a profit of \$98,000, which is an improvement of \$133,000 at the end of March.

Mr. KINLEY: What is the real reason for the disposal of these boats? Are they old and obsolete, and is it that you did not want to put capital money into new ships?

Hon. Mr. FULLERTON: I think that is the situation. They are old and slow, and the time is coming next year when they would have to have repairs, which repairs will have to be added to every year, and we are in competition with much faster boats, some probably twice as fast.

Mr. KINLEY: Is the service to be supplemented by an equal number of boats?

Hon. Mr. FULLERTON: The minister can answer that question.

Hon. Mr. HOWE: Not an equal number of boats, but certainly an equal number of sailings.

Mr. KINLEY: By better ships?

Hon. Mr. HOWE: Yes, faster ships.

Mr. KINLEY: Is the service to be direct, or is it to come through London or some other English port?

Hon. Mr. HOWE: A direct service, direct from Halifax to Australia and New Zealand.

Mr. KINLEY: I would like to say to the committee, as a Maritime member, that this matter interests us considerably. We feel it is all wrong, not so far as the present act is concerned, as that for years we struggled in this country to get control of our coastal service. Under the statute of Westminster we secured our emancipation. Mr. Brodeur, a former Minister of Marine, went over to England for years and tried to get control of our coastal service. By the Merchant Shipping Act of 1931 we made an agreement whereby we went into a pool with all the British Commonwealth, which meant, of course, that the mother country will in effect control the merchant service of the other dominions because of their situation and the fact that they are older at the business and have the financial background, and have the ships. That agreement ends on the 31st December this year. I feel it is a factor in the trade agreement with Great Britain, and, as any marine man knows, there is as much money usually in the carrying of the goods as in the selling of them. It looks to me as though the rights of those who work upon the sea and who are interested in the sea have been sacrificed in the interests of the manufacturers of this country. I strongly feel that so far as our coastal trade in this country is concerned we have no right to share it with anybody. So far as our inter-ocean trade is concerned, we have the right to an equitable arrangement whereby every Canadian who desires to go to sea can do so. Since the centralizing of the marine trade of the world that has been the feeling on our coast. There was a time when Nova Scotia had more ships per capita than any other country in the world, and they sailed to all the countries in the world. Since the centralizing of trade by big business and big financial concerns we have lost that trade. We had hoped that our government could not be influenced by shipping rings and that we might see our way out. With the going out of the business by the government of this country we feel that our situation in so far as becoming a factor in the transportation trade and building up the national marine of Canada are concerned we are doomed for years to come unless that agreement is cancelled, and I hope it will be cancelled this year.

Mr. HANSON: I would like to ask Mr. Fullerton to give us the figures for the British Columbia-Alaska coastal steamship service.

Hon. Mr. FULLERTON: We have here simply the Canadian government merchant marine and the West Indies.

Mr. HANSON: Can we get the information I am asking for?

Hon. Mr. FULLERTON: Yes.

Mr. HANSON: I would like to have the profit and loss statement in connection with the British Columbia-Alaska coastal service.

Mr. LABELLE: That is the Canadian National Steamships. It goes with the railway report.

Hon. Mr. FULLERTON: I can get that for you.

Mr. VIEN: Are there any figures indicated in the annual report with regard to that service?

Mr. KINLEY: In so far as the West Indies trade is concerned is there an agreement with the West Indies to take one-half West Indian crews on these boats? On the eastern route I think there is but not on the western. On the eastern route between Trinidad, St. Vincent and Barbadoes I think there is an agreement.

Hon. Mr. FULLERTON: I am not sure about that.

The CHAIRMAN: Will you see that Mr. Hanson gets the statement he desires?

Hon. Mr. FULLERTON: Yes.

Mr. VIEN: I understand that the chairman of the board of trustees indicated that the Canadian National shipping between Vancouver and Yukon was carried as part of the railway system.

Hon. Mr. FULLERTON: That is correct.

Mr. VIEN: Is there any indication of the results of their operations in the Canadian National railway report?

Hon. Mr. FULLERTON: Not separately in the report.

Mr. FAIRWEATHER: It is carried under the income account.

Mr. VIEN: Not separately?

Mr. FAIRWEATHER: No.

The CHAIRMAN: Go on with the profit and loss account, Mr. Cooper.

Mr. COOPER:

Profit and Loss Account at 31st December, 1935—

Deficit as at 31st December, 1934	\$39,633,853 44
Loss as per Income Account, 1935	2,001,563 32

Deficit as per Balance Sheet	\$41,635,416 76
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Mr. VIEN: By deficit as at 31st December, 1934, do you mean a cumulative deficit to date?

Mr. COOPER: Yes.

Mr. VIEN: Thank you.

Mr. COOPER: Then:

INCOME ACCOUNT

Operating Revenue:	Year 1935	Year 1934
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Do you wish me to read all these figures out?

The CHAIRMAN: Just read the totals.

Mr. COOPER:

	Year 1935	Year 1934
Total Revenue	\$2,764,549 09	\$2,302,559 37
Operating Expenses	2,452,726 83	2,429,825 18
Operating Profit	311,822 26	311,822 26
Operating Deficit		127,265 81

Hon. Mr. VENIOT. Quite a betterment.

Mr. COOPER: A betterment of \$438,000.

Other Charges—

	1935	1934
Interest on Government Notes and Advances	\$1,586,664 67	\$1,609,020 94
Depreciation on Vessels	726,720 91	726,720 91
Net Income Deficit	\$2,001,563 32	\$2,463,007 66

Mr. HANSON: That is also an improvement.

The CHAIRMAN: Do you want to go into the other details with regard to the year 1935?

Mr. VIEN: I wanted to ask if the improvement in volume of traffic is the only factor which has changed the operating deficit into a profit and the operating ratio from 105 per cent to 88 per cent?

Hon. Mr. FULLERTON: If you look at the foot of page 2 you will see the following:—

Notwithstanding 24,701 tons of additional cargo to be handled with an increase of 20 per cent in operating revenue, the operating expenses show an increase of less than 1 per cent. This may be regarded as a very satisfactory performance, reflecting careful administration and strict economy on the part of all concerned...

I think besides the additional traffic there is the factor of efficiency and carefulness in management which has brought about that result.

Mr. VIEN: Do you suggest that carefulness was lacking to a certain degree in previous years?

Hon. Mr. FULLERTON: I would not like to say anything about the previous years. The fact remains that we had a deficit in previous years and this is the first time we have had an operating profit since 1920.

Mr. KINLEY: Nobody else had a profit.

Mr. VIEN: Have you the operating ratio for the last five years?

Mr. COOPER: I can get that for you.

Mr. VIEN: It is not available now?

Mr. COOPER: No.

Mr. VIEN: Would you kindly file it?

Mr. COOPER: Yes.

The CHAIRMAN: You have it here for this year.

Mr. VIEN: I am talking of prior years.

The CHAIRMAN: Yes. Any other questions, gentlemen?

Mr. BOTHWELL: I move the adoption of the report.

Mr. KINLEY: In the agreement for the sale of these boats have you defined the ports of call?

Hon. Mr. HOWE: Yes, the outgoing ships start from a Canadian port on the east coast and go direct to Australia and New Zealand; they are not to call at United States ports on the outward voyage. On the return voyage from Australia and New Zealand they are permitted to deliver cargoes to United States ports.

Mr. KINLEY: It does not say in the agreement that they must deliver the goods at a terminal of the Canadian National Railways?

Hon. Mr. HOWE: No.

Mr. KINLEY: They could have chosen any Canadian port. You may have lost some business.

Hon. Mr. HOWE: We do not think so.

The CHAIRMAN: Shall the motion carry? (Carried).

Mr. VIEN: How many ships have you in the fleet owned by the Railway sailing between Vancouver and the Yukon?

Mr. FAIRWEATHER: I think there are seven altogether.

Hon. Mr. FULLERTON: Seven altogether.

Mr. VIEN: All passengers or passengers and freight?

Mr. HANSON: Mixed.

Mr. VIEN: Will you file a list giving the tonnage?

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: That might be included in the report you are preparing for Mr. Hanson.

Mr. VIEN: Are the ships that are indicated in the West Indies Steamships Limited and the ships of the Canadian government marine indicated on page 9 of the report and the seven ships you have just mentioned which are included in the Canadian National Railway System, the only ships owned by the System?

Mr. FAIRWEATHER: Oh, no.

Mr. VIEN: Will you file a complete list of all the ships owned and operated by the System, indicating the various categories?

Mr. FAIRWEATHER: Yes, sir.

Mr. VIEN: And giving the tonnage?

Mr. FAIRWEATHER: Yes.

Mr. VIEN: And would it be possible to give a summary of the results for each ship?

Mr. FAIRWEATHER: I do not think that could be done with any convenience at all.

Mr. KINLEY: It is generally known what they are doing.

The CHAIRMAN: Now gentlemen, we are through, shall we adjourn?

Mr. VIEN: We have the West Indies service yet.

Mr. KINLEY: I want to say just a word. Yesterday I brought up the question of operating railroads in a foreign country and very properly it was pointed out to me that these were feeders for our railroads and brought traffic to them. I want to say that the same aspect appears to me with regard to the ocean trade. We owned these ships and they were bringing trade to our railways; they were feeders. We are not putting them in the same category as operating in a foreign country.

Hon. Mr. HOWE: Mr. Kinley, may I ask you one question?

Mr. KINLEY: Yes.

Hon. Mr. HOWE: From the time we put that route in operation in 1918 until we sold it in 1936 it cost us \$81,000,000. Do you really believe that any benefit to Canada resulted that was worth \$81,000,000?

Mr. KINLEY: Mr. Minister, I may say to you they were not very good years. In the first place you were undertaking and doing missionary work, and the government of the day saw fit to carry it on from year to year. Now that we have arrived at a place where we see light, we have gone out of business.

Hon. Mr. HOWE: We did not see light, as a matter of fact. We were faced immediately in this year with the spending of another \$6,000,000 on that line, which is another \$6,000,000 tacked onto the \$81,000,000 we have lost. Now I doubt if any man here, faced with the problem, would have said, "We will shoot another \$6,000,000." I may say that we knew definitely that some of the traffic that we had in 1935 we could not hope to carry longer without new ships.

Mr. KINLEY: It is like the fellow who comes to me on the corner and says, "You have a nice business here, I tell you what I will do, 'I will give you a good price for your business, do you want to sell? If you don't I will put up a store across the way and drive you out of business.'"

Hon. Mr. HOWE: Yes.

Mr. VIEN: Do I understand, Mr. Minister, that the ships that have been sold will be replaced by other ships?

Hon. Mr. HOWE: No.

Mr. VIEN: They will not be replaced.

Hon. Mr. HOWE: We are out of business.

Mr. YOUNG: The minister made a statement which I think is rather significant, and I should like to ask one question about it. He said he doubted that the Canadian National Railways would suffer by reason of this change. He thought we would get just as much freight. Are they under obligation to deliver freight to the Canadian National? I should like you to elaborate that a little, please.

Hon. Mr. HOWE: I do not know that it is a question I want to elaborate because it might involve sectional difficulties and one thing and another. I think we had better let it go.

Mr. YOUNG: You feel quite satisfied the Canadian National will not suffer?

Hon. Mr. HOWE: I have expressed that opinion, yes.

Mr. COOPER: Balance Sheet, C.N. West Indies Steamships Co. December 31, 1935, investment in vessels, \$10,940,008.94; special deposits for interest matured unpaid, \$8,525; equity in Canadian National Railways joint insurance fund, represented by securities held, \$1,224,937.82; discount on funded debt, \$59,311.07; discount on capital stock, \$40,000. We now come to liabilities: capital stock, \$40,000; funded debt, \$9,400,000; due to the Dominion of Canada, \$7,756,069.98; due to the Canadian Government Merchant Marine, \$117,986.47; unmatured interest accrued, \$156,666.67; interest matured unpaid, \$8,525; insurance reserve, \$1,224,937.83; accrued depreciation—vessels, \$2,255,835.56; profit and loss—deficit, \$8,687,238.67.

Mr. VIEN: I should like to ask a question, but I suppose it is better for you to carry on and we can come back to it later, if necessary.

Mr. COOPER: Profit and loss account at December 31, 1935. Deficit as at 31st December, 1934, \$7,760,848.56; loss as per income account for the year 1935, \$917,390.11; deficit as per balance sheet, \$8,687,238.67. Income account: Operating revenue, \$3,816,245.75; operating expenses, \$3,616,214.92; operating profit, \$200,030.83 as against a deficit of \$96,678.61 in 1934; interest on bonds due to the public, \$470,000, leaving a cash deficit in 1935 of \$269,969.17 as against \$566,678.61 in 1934. We then come to other charges: Amortization of discount, \$3,094.44; interest due government, \$318,813.61; depreciation on vessels, \$325,512.89; net income deficit, \$917,390.11 as against \$1,178,679.61 in 1934.

Mr. VIEN: I note your consolidated balance sheet does not carry the same items as the consolidated balance sheet of the Merchant Marine. For instance, you have accounts receivable in one, but there is nothing in respect of accounts receivable in the other, nor "Due by agents." What explanation have you for the fact that your consolidated balance sheet does not carry those items?

Mr. COOPER: If you would be good enough to read the certificate of the auditors you would see that that feature is explained.

Mr. VIEN: Would you read it please?

Mr. COOPER: I am reading from the West Indies steamships report of the auditors. It says:—

The current assets and liabilities relating to the operation of this company's vessels are not included in this balance sheet, but are carried upon the books of Canadian Government Merchant Marine Limited, where, however, a separation is maintained of the revenues and expenditures of each company.

A similar notation is made on the balance sheet of the Canadian Government Merchant Marine. It is a matter of accounting and treasury convenience.

Mr. VIEN: What is the advantage of that system?

Mr. COOPER: We have just the one cash book, one set of accounts receivable, and all other accounting books.

Mr. VIEN: Now, I see an item here "Due by agents \$320,000." Is that a normal sum?

Mr. COOPER: I should say so, yes.

Mr. VIEN: Have you anything written off for bad debts?

Mr. COOPER: If any debts have been determined to be uncollectible, they have been written off.

Mr. VIEN: It is not included or it is not deducted from the amount of accounts receivable.

Mr. COOPER: It would be deducted from the receivables and charged up against operating expenses.

Mr. VIEN: Have you any information as to bad debts in the year?

Mr. COOPER: No, I have not. I do not know if there were any, but I do not say there were not some.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Gentlemen, we are now through our work and I think we should adjourn *sine die*, or at the call of the chair. At the next meeting we shall have all the documents that have been asked for, and I suppose at that sitting we shall consider the report.

Mr. VIEN: I suppose documents that are to be filed will be sent to you, Mr. Chairman, and included in the report?

The CHAIRMAN: They will be included.

Mr. VIEN: It will be printed?

The CHAIRMAN: Yes. Now gentlemen, we shall let the officials know if we shall require them, and they will be notified in good time. Is that satisfactory?

Mr. MORROW: Will it be next week?

The CHAIRMAN: I do not think so, but we shall try to let you know two or three days in advance.

Hon. Mr. STEWART: Then I shall reserve my questions until the next meeting.

The CHAIRMAN: Yes, thank you.

The Committee adjourned to meet again at the call of the Chair.

CANADIAN NATIONAL
REVENUES, OPERATING EXPENSES, INTEREST CHARGES AND CAPITAL EXPENDITURES OF THE RAILWAY

Line number inserted by C.N.R.	—	1923	1924	1925	1926	1927	1928
		\$	\$	\$	\$	\$	\$
1	Revenues.....	265,589,570	247,977,422	257,875,523	280,071,946	283,138,689	312,286,031
2	Operating expenses (including taxes, etc.).....	252,642,722	233,502,478	227,656,247	238,173,669	247,641,576	267,154,337
3	Balance available for interest..	12,946,848	14,474,944	30,219,276	41,898,277	35,497,113	45,131,694
4	Interest on funded debt.....	35,539,667	38,900,626	40,966,558	39,701,896	41,013,511	41,946,008
5	Income deficit or Surplus (before interest on Government loans).....	22,592,819	24,425,682	10,747,282	2,196,381	5,516,398	3,185,686
	Capital expenditures—						
6	Road—Expenditures.....	27,612,598	34,106,962	24,766,513	32,080,076	35,737,249	50,594,884
7	—Retirements.....	6,626,786	10,814,473	7,205,331	12,259,733	10,254,105	13,420,355
8	Equipment—Purchases and additions and betterments.....	33,024,412	21,295,672	5,580,535	5,704,889	24,310,634	7,308,684
9	—Retirements.....	3,818,112	4,173,008	4,687,099	3,529,195	3,858,880	5,111,238
10	Hotels—Expenditures.....	695,985	606,211	391,724	1,416,878	1,091,171	4,102,306
11	—Retirements.....	250			152,854	265	231,067
	Separately Operated Proper- ties—Expenditures.....	5,275,896	1,110,529	968,022	1,557,353	1,001,444	2,285,511
12	—Retirements.....	1,199,071	317,426	864,839	353,877	1,930,313	1,494,572
	Invested in Affiliated Com- panies (including Central Vermont Railway to January 31, 1930).....	1,815,640	2,473,154	6,271,577	1,658,228	4,128,619	13,026,571
14							
15	Total—Capital Expenditures....	68,424,531	59,592,528	37,978,371	42,417,424	66,269,117	77,317,956
16	—Capital Retirements....	11,644,219	15,304,907	12,757,269	16,296,659	16,043,563	20,257,232
17	—Net.....	56,780,312	44,287,621	25,221,102	26,120,765	50,225,554	57,060,724
18	Total Capital spent and interest charges in excess of revenue..	79,373,131	68,713,303	35,968,384	23,924,384	55,741,952	53,875,038
19	Interest on Government loans unpaid.....	30,157,944	31,271,043	31,450,382	32,090,454	32,505,234	32,507,337

NOTE.—The above amounts of Revenues, Operating Expenses and Income Deficits are taken from page 3 of the Special Statement Book of the Railway for 1934; the data as to capital expenditures has been abstracted from the "Receipts and Expenditures book for the years 1923 to 1934" of the Railway.

RAILWAYS

FOR THE THIRTEEN YEARS 1923 TO 1935 INCLUSIVE

1929	1930	1931	1932	1933	1934	1935	Total 13 Years
\$	\$	\$	\$	\$	\$	\$	\$
299,232,382	250,968,101	200,505,162	161,103,594	148,519,742	164,902,502	173,184,502	
265,729,130	235,177,877	205,787,812	165,145,234	152,072,029	158,597,452	167,067,604	
33,503,252	15,790,224	5,282,650	4,041,640	3,552,287	6,305,050	6,116,898	
45,554,919	51,317,538	55,587,145	56,965,279	56,465,426	55,811,746	*54,995,080	
12,051,667	35,527,314	60,869,795	61,006,919	60,017,713	49,506,696	48,878,182	385,758,400
70,007,795	46,174,347	24,554,591	7,230,241	7,468,222	9,267,872	9,678,369	379,279,719
14,176,635	11,308,276	8,390,184	4,118,126	4,517,965	5,574,975	5,770,499	114,437,443
30,524,896	26,479,922	16,781,609	674,751	2,509,555	927,927	2,417,227	†177,571,502
5,085,811	4,187,716	4,471,270	5,121,488	5,134,626	5,683,488	6,456,614	61,318,545
4,060,397	4,979,071	5,496,731	2,194,468	621,199	268,571	550,309	26,475,021
227,570	50,369	23,275	.....	10,231	9,730	14,630	721,241
4,321,300	5,528,136	1,080,199	330,576	277,675	246,077	327,475	24,310,193
924,464	1,054,760	741,335	391,264	260,831	458,144	75,340	10,066,236
6,135,117	12,066,022	1,371,140	950,736	2,833,998	326,107	30,789	40,165,250
102,779,271	95,227,498	49,284,270	11,380,772	13,710,649	10,384,340	13,004,169	647,801,685
20,414,480	16,601,121	13,626,064	9,630,878	9,923,653	11,726,337	12,317,083	186,543,465
82,364,791	78,626,377	35,658,206	1,749,894	3,786,996	1,341,997	687,086	461,258,22
94,416,458	114,153,691	96,528,001	62,756,813	63,804,709	48,164,699	49,565,268	847,016,620
32,690,545	32,693,876	32,643,624	35,525,540	36,034,141	35,994,578	35,949,677	431,514,375

*Includes amortization of bond discount but interest on Sinking Fund has been deducted and in former years these items are included above in operating expenses.
†Subject to adjustment of \$30,789.

COMMENTS ON STATEMENT SUBMITTED BY MR. VIEN, AS REQUESTED BY THE CHAIRMAN OF THE SELECT STANDING COMMITTEE ON RAILWAYS AND SHIPPING

The information on the statement has been assembled from various special sources as indicated in the footnotes to the statement.

In combining information taken from such special statements the variations produced have not been fully allowed for. It has been deemed advisable, therefore, to show the discrepancies between the figures as stated, in such a manner as to make allowance for these variations.

For convenient reference each line of the statement has been numbered starting from the top. The comments on each line are as follows:—

Line No. 1. The revenues from 1923 to 1930 inclusive should be corrected as follows:—

Year	Deduction necessary
1923	\$8,627,980
1924	8,380,752
1925	8,463,639
1926	9,089,723
1927	8,259,571
1928	7,694,762
1929	8,735,402
1930	599,103

Line No. 2. This item is a composite one and includes items of both expense and income. In other words in addition to operating expenses and taxes many other items of both income and expense are included under “etc.”

The adjustments necessary in the composite figures from 1923 to 1930 are as follows:—

Year	Deduction necessary
1923	\$9,182,781
1924	8,678,136
1925	8,688,215
1926	8,777,688
1927	9,087,876
1928	7,012,848
1929	7,327,424
1930	539,106

The composite figure for the year 1935 cannot be checked, even in the light of the footnote regarding amortization of bond discount and interest on sinking fund. The discrepancy amounts to \$1,526,288, the figure in the statement being understated by that amount.

Line No. 3. This line is an arithmetical operation and subject to the comments on Nos. 1 and 2, requires no comment.

Line No. 4. The adjustments necessary from 1923 to 1930 are:—

Year	Addition necessary
1923	\$498,287
1924	538,922
1925	528,323
1926	504,663
1927	487,414
1928	135,128
1929	50,940
1930	1,417

The figure for the year 1935 cannot be checked notwithstanding the footnote. The discrepancy is \$1,526,288, the figure in the statement being overstated by that amount.

Line No. 5.—Line 5 after the above adjustments have been made, would produce the net income deficit as per the accounts. The expenses in the period were charged with the creation of an insurance reserve amounting to \$9,590,148, which reserve forms a quick asset of the Company and is therefore available in reduction of the income deficit. Further it might be pointed out that the net income deficit does not represent the cash deficit.

Line No. 6.—No comment.

Line No. 7.—The figure for 1935 is not in accordance with the accounts being overstated by \$415,367. The total for the 13 years is incorrect by the same amount.

Line No. 8.—The figure for the year 1935 is understated in the amount of \$30,789.

Line No. 9.—The figure for 1935 is understated in the amount of \$415,367 and the total for the 13 years is incorrect by a like amount.

Line No. 10.—No comment.

Line No. 11.—No comment.

Line No. 12.—No comment.

Line No. 13.—No comment.

Line No. 14.—No comment.

Line No. 15.—The figure for the year 1935 is understated in the amount of \$30,789.

Line No. 16.—No comment.

Line No. 17.—An arithmetical operation and requires no comment other than as contained in Item 15.

Line No. 18.—Item 18 is an arithmetical operation and is subject to the reservations made in Items 1, 2, 4, 7, 8, 9 and 15.

As indicated previously, most of these corrections have arisen from the fact that the information has not been compiled upon the same uniform basis throughout. Attention is also directed to the remarks on Line 5, namely that income deficits include the cash insurance reserve in the amount of \$9,590,148. It might be pointed out that the addition of capital and interest charges in excess of revenue, producing one grand total, gives an arithmetical total, the significance of which cannot be judged unless accompanied by a careful study of the manner in which the capital expenditures were made. The amount by which interest charges exceeded revenue, using the term "revenue" in the seense of resources, is related entirely to the past. The effect of capital expenditures on the other hand is related to present and future operations, because money expended prudently upon improvements to the property increases the resources of the property by a greater amount than the interest and depreciation charges upon the additional capital. A few of the more important improvements through capital expenditures during the period are as follows:—

	Net Capital Expenditure
Improvement in track structure and roadway.. ..	\$77,550,000
Freight terminals, yards and sidings.. .. .	20,836,000
Modern rolling stock purchased.. .. .	93,017,000
Modernizing existing rolling stock.. .. .	19,163,000
Modernizing shops, enginehouses and machinery....	9,453,000
Modernizing telegraph facilities including installa- tion of carrier current system.. .. .	8,530,000

Line No. 19.—The figures covering interest on Government loans are as per the books of the Company. These loans either represent advances to meet deficits, in which case it may be urged that interest should not be accrued thereon, or they represent additional capital put into the enterprise to keep it going, and are therefore in the category of shareholders' capital which should not bear a fixed rate of interest. Nearly 90 per cent of the interest has been charged at the rate of 6 per cent.

General.—There are a number of minor errors ranging upward to \$10, to which it has not been deemed necessary to draw attention.

APPENDIX No. 2

QUESTIONS BY MEMBERS OF THE COMMITTEE AND ANSWERS THERETO AS FILED BY MR. FAIRWEATHER

Question By Mr. Maybank:—You might put in a similar comparison (of operating ratios) between the C.N.R. and the average for Class I Roads in the United States.

Answer:—The comparison for typical years 1928 and 1934 is as follows:

	1928	1934
Operating Ratio of C.N.R. Lines in Canada	83.6	92.5
Adjustments to make C.N.R. Ratio comparable with Average Class I U.S. Roads Ratio on a fair basis of comparison		
Freight and Passenger Rates; Express, Telegraph, Colonization and Pension	6.6	0.8
Average Haul	3.2	2.7
Car Lading	1.0	0.5
Freight Density	8.3	14.6
Passenger Density	3.7	6.9
Retirements and Depreciation	2.5	2.6
Wages	—	4.2
Fuel	4.2	4.2
C.N.R. Ratio as Adjusted	65.5	76.6
Average Class I Roads Ratio	72.4	74.6

NOTE:—Black figures denote decrease in C.N.R. Operating Ratio;
Italic figures denote increase.

By Mr. Hanson:

Q. I would like to have the Profit and Loss statement in connection with the British Columbia Alaska coastal service?

CANADIAN NATIONAL STEAMSHIPS (PACIFIC COAST)
CONDENSED INCOME STATEMENT INCLUDING PROFIT & LOSS—YEARS, 1928 TO 1935 INCLUSIVE

	1928	1929	1930	1931	1932	1933	1934	1935	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenues.....	1,094,225	1,066,042	1,220,845	1,315,249	821,907	472,905	787,183	741,859	7,520,215
Total Expenses.....	1,011,892	973,436	1,606,599	2,007,312	1,319,259	642,540	889,154	944,697	9,394,889
Net Revenue.....	82,333	92,606	385,754	692,063	497,352	169,635	101,971	202,838	1,874,674
Taxes.....	28,632	43,418	31,207	36,005	45,444	57,645	57,298	31,780	331,429
Operating Income.....	53,701	49,188	416,961	728,068	542,796	227,280	159,269	234,618	2,206,103
Other Income Dr. or Cr.....	17,257	17,443	705	52,810	21,193	25,123	24,073	25,174	182,368
Net Income or Deficit.....	36,444	31,745	416,256	780,878	563,989	252,403	183,342	259,792	2,388,471
Profit & Loss Dr. or Cr.....			24,103					563	24,666
Net Surplus or Loss.....	36,444	31,745	440,359	780,878	563,989	252,403	183,342	260,355	2,413,137

NOTE: The above results do not include Depreciation and Interest on Investment.
Accounting Department—Montreal, Que., May 11, 1936.

Question by Mr. Vien: Have you the operating ratio for the C.G.M.M. for the last five years?

Answer: The C.G.M.M. operating ratio for the last five years was:—

1931—111·72

1932—114·43

1933—100·80

1934—105·52

1935— 88·72

The C.N. (West Indies) Steamships operating ratio for the last five years was:—

1931—112·24

1932—108·54

1933—116·84

1934—102·76

1935— 94·76

SHIPS OWNED AND/OR OPERATED BY THE CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED—
CANADIAN GOVERNMENT MERCHANT MARINE LIMITED—CANADIAN NATIONAL RAILWAY COMPANY

Owner of Vessel	Name of Vessel	Gross Tons	Net Tons	Service in which operated	Operated by	Description of Vessel	Book Value at Dec. 31, 1935	Aggregate Book Value
Lady Drake Limited.....	Lady Drake.....	7,985	4,920	West Indies "Leeward and Westward Islands and British Honduras."	C.N. "W.I." SS.....	Passenger and Freight..	\$1,687,133 68	
Lady Hawkins Limited.....	Lady Hawkins.....	7,988	4,920	"	"	"	1,683,243 56	
Lady Nelson Limited.....	Lady Nelson.....	7,970	4,916	"	"	"	1,679,084 73	
Lady Rodney Limited.....	Lady Rodney.....	8,194	4,936	"	"	"	1,782,169 16	
Lady Somers Limited.....	Lady Somers.....	8,194	4,941	"	"	"	1,777,080 37	
Canadian Hunter Limited.....	Cathcart.....	3,708	2,217	"	"	Freight.....	442,960 33	
Canadian Aviator Limited.....	Cavalier.....	3,663	2,213	"	"	"	435,065 21	
Canadian Runner Limited.....	Colborne.....	6,230	3,886	"	"	Freight and Passenger..	500,000 00	
Canadian Otter Limited.....	Chomedy.....	6,136	3,828	"	"	"	500,000 00	
Canadian Volunteer Limited.....	Cornwallis.....	5,458	3,352	"	"	Freight.....	167,120 00	
Canadian Sapper Limited.....	Connector.....	1,789	1,064	"	"	Freight and Passenger..	286,151 90	10,940,008 94
Canadian Britisher Limited.....	Can. Britisher.....	5,370	3,244	Australia and New Zealand.....	C.G.M.M.....	Freight.....	\$2,129,925 58	
Canadian Challenger Limited.....	Can. Challenger.....	5,439	3,331	"	"	"	1,476,134 15	
Canadian Conqueror Limited.....	Can. Conqueror.....	5,448	3,336	"	"	"	1,517,925 21	
Canadian Constructor Limited.....	Can. Constructor.....	7,178	4,413	"	"	"	2,349,592 18	
Canadian Cruiser Limited.....	Can. Cruiser.....	7,178	4,413	"	"	"	2,338,788 33	
Canadian Highlander Limited.....	Can. Highlander.....	5,370	3,264	"	"	"	1,572,985 10	
Canadian Leader Limited.....	Can. Leader.....	5,492	3,342	Laid up in Port of Halifax.....	"	"	1,519,867 84	
Canadian Planter Limited.....	Can. Planter.....	5,399	3,333	Australia and New Zealand.....	"	"	1,601,363 37	
Canadian Scottish Limited.....	Can. Scottish.....	5,334	3,242	"	"	"	2,140,148 14	
Canadian Victor Limited.....	Can. Victor.....	5,454	3,340	"	"	"	1,521,343 02	18,168,022 92
Can. Govt. Rlys.....	Charlottetown.....	5,889	3,385	Cap Tormentine, N.B., Borden, P.E.I. (Northumberland Straights).	C.N. Rly. Co.....	Car Ferry.....	\$2,184,995 93	
"	Pr. Ed. Island.....	2,795	1,110	"	"	"	707,167 93	
"	Scotia No. 1.....	1,461	658	Mulgrave and Point Tupper, N.S. (Gulf of Canso).	"	"	351,705 97	
"	Scotia No. 2.....	1,859	740	"	"	"	353,926 10	
Dalhousie Navigation Co.....	Northumberland.....	1,255	542	Toronto—Port Dalhousie, Ont.....	N.S. & T. Rly. Co.....	Passenger and Freight..	104,767 22	
International Bridge Co.....	Dalhousie City.....	1,256	752	"	"	"	164,057 19	
Canadian National Rly. Co.....	International.....	62	31	Niagara River—Lake Erie.....	C.N. Rly Co.....	Tender.....	14,182 55	
"	Huron.....	1,052	688	Detroit, Mich.—Windsor, Ont.....	"	Car Ferry.....	166,000 00	
Can. Atlantic Transit of U.S.....	Lansdowne.....	1,571	908	"	"	"	313,144 66	
"	Arthur Orr.....	2,745	2,117	Depot Harbour, Ont., Milwaukee, Wis. and Chicago, Ill.....	C.A.T. Co. of U.S.....	Freight Cargo.....	250,000 00	
"	Kearsarge.....	3,092	2,721	Laid up at Depot Harbour, Ont.....	"	"	148,500 00	
Can. Atlantic Transit Co. (Canada)	Dalwarric.....	2,394	1,428	Depot Harbour, Ont., Milwaukee, Wis. and Chicago, Ill.....	"	"	124,851 76	
"	Canatco.....	2,415	1,455	Laid up at Depot Harbour, Ont.....	"	"	114,954 40	
Grand Trunk Western R.R. Co.....	Grand Haven.....	2,320	1,678	Laid up at Manitowoc.....	G.T.W. R.R. Co.....	Car Ferry.....	337,746 52	
"	Madison.....	2,942	1,488	Milwaukee, Wis.—Muskegon, Mich. (Lake Michigan).	"	"	766,174 05	
"	Grand Rapids.....	2,942	1,488	"	"	"	761,576 66	
"	City of Milwaukee.....	2,942	1,488	"	"	"	721,823 60	

STANDING COMMITTEE

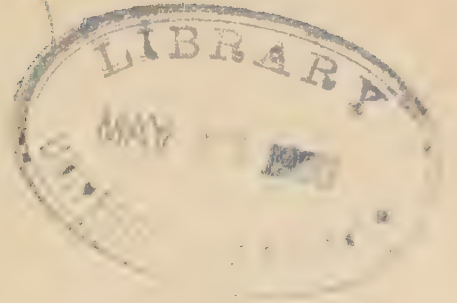
SHIPS OWNED AND/OR OPERATED BY THE CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED—
CANADIAN GOVERNMENT MERCHANT MARINE LIMITED—CANADIAN NATIONAL RAILWAY COMPANY—Concluded

Owner of Vessel	Name of Vessel	Gross Tons	Net Tons	Service in which operated	Operated by	Description of Vessel	Book Value at Dec. 31, 1935	Aggregate Book Value
Canadian National Rly. Co.	Pentowna	145	61	Lake Okanagan, B.C.	C.N. Rly. Co.	Diesel T.S.	132,844 93	
"	Can. Nat'l No. 3	33		"	"	Tug	32,609 51	
"	Can. Nat'l No. 5	68		"	"	"	101,323 64	
"	Can. Nat'l No. 104	296	296	"	"	Barge	43,095 39	
"	Can. Nat'l No. 108	427	427	"	"	"	110,875 69	
Can. Northern SS. Limited	Canora	2,383	940	Laid up at Port Mann, B.C.	"	Car Ferry	570,638 40	
"	Can. Nat'l No. 1	240		Port Mann, B.C. and Vancouver Island	"	Tug	90,034 65	
"	Can. Nat'l No. 2	444	8	"	"	"	84,915 15	
"	Can. Nat'l No. 4	106	41	"	"	"	32,591 50	
"	Can. Nat'l No. 103	744	744	"	"	Barge	63,449 01	
"	Can. Nat'l No. 107	10,57	1,037	"	"	"	148,132 70	
"	Can. Nat'l No. 109	1,149	1,131	"	"	"	152,725 66	
Grand Trunk Pacific Rly. Co.	Can. Nat'l No. 109	459	459	"	"	"	18,965 48	
"	Can. Nat'l No. 106	455	455	Prince Rupert, B.C. (Salmon Wharf)	"	"	28,325 73	9,196,101 98
"	Can. Nat'l No. 105	1,105	611	Vancouver, Prince Rupert and Queen Charlotte Islands	"	Freight and Passenger	\$ 286,566 19	
Canadian National Rly. Co.	Pr. Charles				C.N. SS. "Pacific"			
"	Pr. David	6,892	3,072	Laid up at Bermuda April, 1934	"	"	2,140,867 72	
"	Pr. George	3,372	1,625	Vancouver, northern B.C. and Alaska	"	"	549,453 00	
"	Pr. Henry	6,893	3,055	Laid up at Halifax October, 1932	"	"	2,154,611 87	
"	Pr. John	906	549	Vancouver, Prince Rupert and Queen Charlotte Islands	"	"	144,172 12	
"	Pr. Robert	6,892	3,072	Vancouver—Alaska, summer seasons only	"	"	2,177,480 08	
"	Pr. Rupert	3,379	1,626	Vancouver, northern B.C. and Alaska	"	"	531,755 21	
"	Pr. William	525	281	Laid up at Prince Rupert, B.C., Jan., 1931	"	"	169,414 72	8,154,120 91
Ontario Car Ferry Co. Ltd.	Ontario No. 1	5,146	3,229	Cobourg, Ont.—Rochester, N.Y.	Ont. Car Ferry Co. Ltd.	Freight and Passenger	368,307 23	
"	Ontario No. 2	5,568	3,376	"	"	"	465,024 26	833,331 49
(C.N. Rly. Co. and B. & O. R.R. Company each own 50 per cent of Capital Stock in this Company.)								
Central Vermont Trans. Co.	New York	2,818	1,893	New York—New London	C.V. Transportation Co.	Freight	199,619 84	
"	New London	2,818	1,893	"	"	"	199,632 20	399,252 04
(Central Vermont Rly., Inc. owns 25 per cent of Capital Stock in this Company and the New London & Northern R.R. Co. own the other 75 per cent.)								
								\$47,690,838 28

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SESSION 1936

HOUSE OF COMMONS



STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

TUESDAY, MAY 26, 1936

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways

Mr. J. E. Labelle, K.C., Trustees, Canadian National Railways

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1936

MINUTES OF PROCEEDINGS

TUESDAY, May 26, 1936.

The standing committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m. The Chairman, Sir Eugène Fiset, presided.

Members present: Messrs. Barber, Beaubien, Beaubier, Bothwell, Elliott (Kindersley), Hanson, Heaps, Howe, Kinley, McLarty, Maybank, Parent (Quebec West and South), Stewart, Vien and Walsh.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C. and Mr. F. K. Morrow, Trustees, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. V. I. Smart, Deputy Minister of Railways and Canals.

The chairman read a communication from Sir E. W. Beatty, Chairman and President, Canadian Pacific Railway Company, submitting a memorandum in which exception is taken to certain statements filed by Mr. Fairweather and printed as an appendix to the committee's proceedings of May 6, page 169, in answer to the following question by Mr. Maybank:—

Could you file a table which would show the adjustments to the C.N.R. operating ratio in order to render it comparable to that of the C.P.R. for a period of years?

The committee having discussed Mr. Beatty's request that the memorandum be added to the printed record, it was agreed that said memorandum be laid on the table pending any future action to be decided by the committee.

Discussion followed with respect to examining the Board of Trustees on statements made in the House by the Minister of Railways and Canals while moving the second reading of Bill No. 21, an Act to amend the Canadian National-Canadian Pacific Act, 1933.

The chairman having ruled against this procedure, the Bill not being referred to the committee, it was finally agreed that the chairman and other members of the Board of Trustees be allowed, if they so desired, to present a statement at the next meeting on the management of the railway under their jurisdiction, a copy of such statement to be sent, in advance, to the Minister of Railways and Canals and to the chairman of the committee.

On motion of Mr. Vien,

Resolved,—That the committee do approve of the following items of the estimates for the fiscal year ending March 31, 1937, viz,—

Items Nos. 84 and 85, Maritime Freight Rates Act,

Item No. 85, deficit of the Canadian National (West Indies) Steamships Limited.

The committee adjourned until Tuesday, June 2, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,
May 25, 1936.

The Standing Committee on Railways and Shipping met at 11 o'clock, Sir Eugène Fiset, the Chairman, presided.

The CHAIRMAN: Order please. Now, Mr. Stewart, what have you to bring before the committee?

Hon. Mr. STEWART: Mr. Chairman, I intimated that I wanted to ask the president certain questions arising out of statements made in the House by the minister in the introduction of his bill.

Hon. Mr. HOWE: May I say a word before you start. It is hardly fair to embarrass the president of the railway. The president is not a party to the statements; I never discussed my statements with him. He is an officer of the railway, and his senior officers are here to-day. His position is very uncertain at the moment—there is a change in legislation. I do not mind any question you ask the trustees and myself. We will be glad to answer them. But I ask you to consider the position of the president in connection with your questions.

Hon. Mr. STEWART: Yes. I propose to call his attention to statements made by yourself, Mr. Minister, in the house,—

The CHAIRMAN: Mr. Stewart, you are an old parliamentarian.

Hon. Mr. STEWART: —and ask the chairman of the board of trustees what he has to say about them.

Hon. Mr. HOWE: I think that is very proper, but I do not want to embarrass the president. After all, I never discussed my statements with the president.

Hon. Mr. STEWART: I think he is capable of taking care of himself.

The CHAIRMAN: Before you proceed, Mr. Stewart, may I say this: The members of the committee should be aware of the fact that the bill and the statement made in the house on the bill are not before this committee; it is not included in the order of reference that is before this committee. And before proceeding with any question of that kind, dealing with a matter that is before the house at the present time and which has not been heard by this committee, I should like to get the decision of the members of the committee in order to find out whether we intend to allow Mr. Stewart to proceed.

Hon. Mr. STEWART: Mr. Chairman, will you permit me a word on that? I do not propose to argue before this committee as to the merits of the bill at all, as to whether it is sound or unsound or whether it is a matter that is calculated to improve the condition of the Canadian National Railways or not. I am not going to argue that or bring it up at all. As the bill has not been referred to this committee I do not propose to discuss its merits. I want to make that perfectly clear; but in introducing the bill the minister made certain statements—

The CHAIRMAN: On the bill itself.

Hon. Mr. STEWART: —which he might have omitted. I do not contend that I have the right here to discuss a matter of policy of the government. If they think that the board of trustees should be abolished and a board of management appointed, that is all right. But the matter did not stop there. The minister made certain statements as to conditions that existed under the present management, and it is with reference to those statements that I desire to ask certain questions.

The CHAIRMAN: I am in the hands of the committee.

Hon. Mr. STEWART: I am a new member of this committee; this is my first session on the committee, but I want to say this: I am a friend of the Canadian National Railways, always have been, no matter what may have been represented to the contrary. But I do know in the past great latitude has been allowed, every sort of detail has been gone into. In my opinion, I think sometimes too much detail, in the interest of the Canadian National Railways, was brought out. I do not desire to do anything that is calculated to embarrass anybody in a position of authority or administration in the Canadian National Railways, or to embarrass the railway itself. I would do anything I could to help them. I think the questions that I shall ask I shall leave very largely to the chairman of the board and to Mr. Hungerford to make such statements as they like upon them; I am not going to press them.

The CHAIRMAN: With the intention of helping you I am asking the members of the committee if they have any objection to allowing you, Mr. Stewart, to proceed with your question.

Mr. BEAUBIEN: I think it is entirely out of order. The minister—

Hon. Mr. STEWART: You have not heard them yet. Why do you say the questions are out of order?

Hon. Mr. HOWE: I think it is quite proper for the committee to discuss matters respecting the C.N.R. I think it is quite proper for Mr. Stewart to go ahead.

The CHAIRMAN: Go ahead, Mr. Stewart.

Hon. Mr. STEWART: We shall now deal with Mr. Howe's statement. I hope I shall read all that is relevant, as I do not want to be accused of leaving out anything. At page 2365 of Hansard the minister in bringing down his bill said:—

Mr. Speaker, in bringing down this measure I feel I am sponsoring a most important and necessary piece of legislation. It is common knowledge that the three directors to whom the direction of the railways was entrusted as a result of the 1933 act have made no real progress toward the improvement of our railway situation.

He said, "It is common knowledge."

To date they have failed to achieve any substantial co-operative economies, to secure which was the principal object of their appointment and the outstanding feature of the 1933 legislation. Not only have they failed to secure any substantial results to date, but on their own published statements, the prospect of future results from co-operative measures, plans and arrangements, is not bright. Nor have they been able to reduce to any great extent Canadian National operating costs, due to the fact that that avenue had been so thoroughly explored by the previous boards of directors. I shall in a few moments support these statements by citations from the reports of the trustees themselves. That is the external situation. Internally, as most hon. members are probably aware, there is much unrest among Canadian National employees, who everywhere appear to regard the trustee method of control with distrust and suspicion. This is primarily due to the fact that in matters of actual management the chief operating officer with the titular rank of president is subordinated to a trustee board of three laymen, inexperienced in railway problems and who know nothing of actual railway practice, and, as a result, have shown a complete lack of understanding of the human element which, under prevailing conditions, enters so largely into successful railway operation. In talking over the situation with the trustees themselves I cannot find that any one of them believes that the present system of management is a good one. As things stand the trustee board is

responsible to no one, is apparently without a policy, and so far as public relations are concerned, is without even a voice. In addition, there is, to put it mildly, serious lack of agreement among the trustees themselves, and the fate of any measure with which they must deal depends upon whether one of the other trustees can be brought to agree with the views of the chairman, who is vested with over-riding in that the majority vote of the trustees is ineffective unless the chairman be included in that majority.

Now, then, I should like to ask what comment—

Mr. MAYBANK: I object to that question. Here we have had a long article read, and the president of the railway is being asked to comment on it. I think that is asking the president to join issue with the minister in regard to the railways, and that is asking a little too much.

Hon. Mr. STEWART: I am not going to ask—

Mr. MAYBANK: To ask him to join issue with the minister in that regard certainly puts him in a very difficult position, and one that is not necessary.

Mr. HEAPS: It is quite possible that Mr. Fullerton may have a statement to make to this committee in respect of a situation which has developed in the last few months, and if that is the case, I do not think we should do anything here to debar Mr. Fullerton from making a statement to the committee.

The CHAIRMAN: As the minister in charge of the department has no objection whatever to Mr. Fullerton making the statement—

Mr. BOTHWELL: I think there should be concrete questions put on the basis of that argument.

The CHAIRMAN: If you will allow me to continue, I shall ask Mr. Stewart if he is going to put blunt questions. Surely, you are not going simply to read the report of Mr. Howe's speech in the house and ask the chairman of the board of trustees to comment on it? You must put a specific question to him.

Mr. MAYBANK: I want to make my objection clear. I am not objecting to Mr. Stewart asking questions of Mr. Fullerton. As I understood it, the comments were directed to Mr. Hungerford. It was with reference to that I was objecting. Do I understand now the question was put to Mr. Fullerton?

Hon. Mr. STEWART: I am not addressing my questions to Mr. Fullerton. I endeavoured to anticipate your objection to my asking detailed and possibly embarrassing questions. I want to leave it to the gentlemen here to make such statements as they deem necessary to answer this statement.

The CHAIRMAN: Are you satisfied that Judge Fullerton should make the statement?

Mr. HEAPS: Do I understand that Mr. Stewart is asking Mr. Fullerton a question, and are we to expect individual replies to various questions asked, or should we ask Mr. Fullerton if he has any statement to make to this committee? Perhaps he could make a statement to this committee that might possibly cover some of the questions Mr. Stewart has in mind.

Hon. Mr. STEWART: I do not want to monopolize the committee. I want everybody to be free to ask questions.

Mr. BOTHWELL: We are more or less a fact-finding body here. There have been certain statements read from Hansard by Mr. Stewart. I think he can base concrete questions on the statement that he read. If there are any facts that can be elicited from Mr. Fullerton or any other member of the Canadian National Board, the committee are entitled to the information, and Mr. Stewart also.

The CHAIRMAN: Perhaps we might consult the chairman of the board of trustees. Do you prefer to make a general statement, sir, or do you prefer to answer specific questions?

Hon. Mr. FULLERTON: Gentlemen, when I came here to the first meeting of the committee it was intimated to me by the chairman that the bill proposing to change the organization of the C.N.R. was not before this committee, and that nothing in the nature of a discussion regarding the measure would be had; consequently I have prepared no formal statement. I have not, as a matter of fact, thought of the matter since Mr. Howe's speech was made. I am not prepared to make a formal statement, as this was entirely unexpected. I had not the least idea that these questions were coming up. If you want me to make a statement it will take me a very short time to prepare one. If you adjourn until to-morrow I shall be prepared to make a statement, but I am ready to answer any questions that may be put to me. You understand perfectly well that my position is an extremely delicate one. I do not want to get in conflict with the minister of railways with whom I am so closely associated in matters affecting the railway. My position is one in which I should prefer, if you ask me to make a statement, to give it some consideration. That is my position. But in so far as questions are concerned, I am perfectly willing to answer any question that may be put to me in connection with the management of the Canadian National Railways from the day I went there to the present day.

Mr. BEAUBIEN: In the face of what Mr. Fullerton has said I am still of the opinion that this discussion is entirely out of order. The bill of the minister of railways was presented to the house and has not been referred to this committee. This committee has not been asked to investigate the statement of the minister. This statement should be discussed in the house and comments made on it at that time. We are placing the chairman of the board of trustees in an embarrassing position, and I do not see that we are going to get anywhere.

Mr. BOTHWELL: There are statements made there that there have been no material economies effected since 1934, and there has been very little in the way of co-operation to cut down expenses between the two railway companies. It seems to me that leaves an opening to elicit certain facts.

The CHAIRMAN: Mr. Stewart, perhaps it would be better for you to proceed with questions instead of making a general statement.

Hon. Mr. STEWART: Mr. Chairman, I appreciate the position taken by the chairman of the board of trustees, and I think that he should be permitted to exercise his discretion in making such statements as he thinks proper to this committee. It seems to me that would be the better way than for me to press individual questions, as he has not prepared himself to answer them. With the permission of the committee I shall refer to two or three other extracts from Hansard to which I should like him to give consideration in the preparation of his statement, because after he has made his statement it may cover practically all of the ground and avoid the asking of the other questions.

The CHAIRMAN: Yes; but on the other hand that raises the general question. The order of reference under which we are acting at the present time does not cover the statement made by the minister in the House of Commons nor the bill that is before the house at the present time. I do not think this committee has the right to discuss the bill nor the statement of the minister. That is my profound conviction.

Hon. Mr. STEWART: I am not discussing the bill at all. I endeavoured to make it perfectly clear that I am not discussing the bill.

The CHAIRMAN: You are discussing the statement made by the minister when he introduced his bill.

Hon. Mr. STEWART: Because, Mr. Chairman, it relates to the operation of the railway. That is my only reason for discussing it. The minister might have said this, in the House of Commons: "The government believes that the appointment of a board of managers is preferable in the management of the railway to a board of trustees," and left it there, made no statement as to the results

attained by the trustees, or shall I say, anything in the nature of a possible reflection upon them in their conduct of the business. Had it stopped there it would have been perfectly all right. That would be a matter of policy. But he has made statements here as to certain conditions and results in connection with the operation of the railway which, I submit, under the contract of this committee we have a right to investigate, a right to ask the accuracy of. The next extract that I was going to read is more direct, possibly, and requires explanation possibly more than this one.

The CHAIRMAN: I know. If you have a series of questions dealing with the administration of the Canadian National that may be affected by the minister's speech in the House of Commons, surely you can ask the specific questions without referring to Hansard, without referring to the speech or without referring to the bill.

Hon. Mr. STEWART: No, his statements are the basis of my questions.

The CHAIRMAN: I know. It is exactly the basis. But as chairman of the committee, I am afraid I shall have to rule that we have not the right to discuss it. However, I am in the hands of the committee.

Mr. MAYBANK: With reference to the questions touching on, for example, savings and operating costs, it seems to me that such questions were appropriate when we were going over the report.

The CHAIRMAN: Certainly.

Mr. MAYBANK: But we have concluded that.

The CHAIRMAN: Yes.

Mr. MAYBANK: Therefore any questions of that sort, it seems to me, are belated.

The CHAIRMAN: Yes.

Mr. MAYBANK: Therefore they are no longer in order.

The CHAIRMAN: Except this, that when the committee adjourned we did give permission to Mr. Stewart, and told him we would give him a chance to ask certain questions in the committee. Of course, I was not aware of the character of the questions then.

Mr. MAYBANK: Precisely, certain questions. But I do not think we left it open to again go over the report with a fine-tooth comb. We had no intimation of the nature of the questions proposed at that time. Surely we did not intend to leave the door open for another complete rehashing of the report.

Hon. Mr. STEWART: That is just what I do not want to undertake. You will recall that at some of the meetings of the committee I said that any questions I might want to ask I would reserve, because it would not require the presence of the technical officers of the railway here to answer them; and the questions I wanted to ask are along the line I have indicated. I did ask some questions of the technical officers. But these, I intended, were questions I wanted to ask of the Board of Trustees and the Chairman.

The CHAIRMAN: Why not proceed with your questions at the present time?

Hon. Mr. STEWART: That is what I am trying to do.

The CHAIRMAN: I know. But you are not asking questions. You are simply reading from Hansard the minister's speech and asking the chairman of the board of trustees to make a statement.

Hon. Mr. STEWART: I thought that was the easiest way to do it. I shall ask him now if that is a correct statement of the situation.

Hon. Mr. FULLERTON: What statement?

Hon. Mr. STEWART: The one I read.

Hon. Mr. FULLERTON: Absolutely no.

Hon. Mr. STEWART: It is not a correct statement?

Hon. Mr. FULLERTON: It is not a correct statement.

Hon. Mr. STEWART: All right. Then I shall read another.

Mr. KINLEY: In what respect is it not correct?

The CHAIRMAN: You are referring to a general statement.

Mr. VIEN: I would like the statement to be read again.

The CHAIRMAN: Mr. Stewart, will you read it again?

Hon. Mr. FULLERTON: It seems to me we would get along better if you would ask individual questions; because you cannot deal with a whole conglomeration of questions.

Mr. VIEN: No. It may create confusion as to the exact part of the statement to which the witness is now referring. So I would like Mr. Stewart, if he will, to kindly read the statement and ask Mr. Fullerton whether it is correct or not.

Mr. HEAPS: On that very point, when Mr. Stewart originally suggested the asking of questions, it seemed all right on the face of it. But when you ask a question and get a yes or no answer, I am afraid that is not going to be satisfactory. It was for that reason I suggested that, if Mr. Fullerton desired to make a general statement to the committee, I think it would perhaps be preferable to having these yes or no answers. For instance, to the first question asked by Mr. Stewart—and I have no objection to going along with that method—he got the answer “no,” a direct contradiction to the statement made.

Mr. BOTHWELL: Maybe it is one phrase that is being answered.

Mr. HEAPS: We all know that it is impossible to leave the thing stay where it is on that answer.

Hon. Mr. STEWART: Exactly.

Mr. HEAPS: It is a general answer to a general question, and none of us are any better off, in a sense, for the asking of that question; except that it leaves the whole committee or the whole situation in a state of confusion.

Hon. Mr. STEWART: That is why I suggested, in the interest of the railway and in the interest of all concerned, that it would be preferable that the chairman of the board of trustees should make his statement rather than that we should get into this cross-fire of asking questions and cross-examining. That is the one thing I want to avoid.

The CHAIRMAN: I should like to know what the pleasure of the committee is.

Mr. McLARTY: A great deal of the statement that has been read by Mr. Stewart and which was made by the minister in the House is a matter of pure opinion. It is not a matter of fact.

Hon. Mr. STEWART: No.

Mr. McLARTY: The minister might have one opinion on a certain set of facts and the chairman of the board might have another opinion. Surely we are not going to get into a long argument here as to which opinion is correct. I think the only duty of this committee is to find facts as far as they can, and limit questions to questions of fact and not of opinion purely by the minister or by the chairman of the board. If we are going to do that, Mr. Stewart will have to segregate from that statement which he has read, the parts definitely relating to facts which the committee can weigh. I would suggest if we are going to go on and simply say, “Is that statement correct?” that means nothing, because it is correct as far as the minister is concerned, in that he himself is of that opinion. But there are questions of facts which the committee might properly deal with.

Mr. VIEN: I agree with what the preceding speaker has just said. Moreover, as you stated very properly, I think, the question is that we are bound by the terms of our reference.

The CHAIRMAN: Exactly.

Mr. VIEN: We cannot go outside the terms of our reference. Therefore that was the purpose of my question to Mr. Stewart. It was to determine what part of the statement he desires to put specific questions on. If such parts of the statement refer to the Bill which is not referred to this committee, but is being studied in the committee of the whole house, then we are without power and without jurisdiction to go into that. If it involves a question of the management of the Canadian National Railways, if it involves a statement by the minister as to the results of the operations of the Canadian National Railways and the ability or the efficiency of the board of trustees in managing the Canadian National Railways, that might be linked up with the study of the financial report of the Canadian National Railways which is before this committee under a reference from the house. But I believe that it would be improper and outside of our jurisdiction to enquire into any questions directly linked up, and exclusively linked up, with the Bill under study in the House of Commons. We must limit ourselves, in my humble opinion, to the reference made by the House of Commons to this committee. That is the reason why it seems to me that the proper procedure to follow would be for Mr. Stewart or any other member of this committee to put any direct and specific questions to any members of the board of trustees; and you, Mr. Chairman, will be in a position to determine whether they are within or without the reference to this committee. The chairman of the board of trustees said that he had no statement to make.

Hon. Mr. FULLERTON: I said this, that I had not any idea that this was coming up here, and naturally I have not prepared a statement. But I am perfectly willing to prepare a statement.

Mr. VIEN: I understand. But on his own admission, he did not intend to make a statement; and he does not desire to make a statement unless the committee desires that he do so.

Hon. Mr. FULLERTON: Let me make my position clear, if you will.

Mr. VIEN: Certainly.

Hon. Mr. FULLERTON: When I first came to this committee I was informed by the chairman of the committee quite plainly—at least I drew the inference—is that right?

The CHAIRMAN: Quite plainly.

Hon. Mr. FULLERTON: Yes, that the bill had not been referred to this committee; and that, consequently, any question with regard to the management of the Canadian National Railways would not be raised in this committee. Naturally, I am not here prepared with a statement. But all I ask you is to give me two or three days to prepare it and I am prepared to give you it, and am only too anxious to do so.

Mr. VIEN: I understand that attitude. I thought that I had correctly interpreted it. But if there is any difference between my statement and that of the chairman, I am quite satisfied to accept the correction. But my point is that so far as we are concerned to-day we are not confronted with the request of the chairman of the board to make a statement. We are not confronted with such a request. We are confronted with a request from Mr. Stewart that the chairman be called upon to make a statement. In my opinion, this would have to be limited to the matters under reference to this committee.

The CHAIRMAN: Quite right.

Mr. VIEN: That is, the financial statement of the Board of Trustees of the Canadian National Railways. Now Mr. Stewart has introduced into the question a statement made by the minister in the House of Commons. That statement was made not upon the reference to this committee or any matter covered by the reference, but upon a totally different matter, namely, whether it is expedient for the parliament of Canada to change the system of the management of our Canadian National Railways.

Hon. Mr. STEWART: Mr. Chairman, I have tried to make it clear that I do not desire to discuss that matter at all. That is a matter for the House of Commons. It is only the statement in connection with the administration and the operation of the railway that I wish to invite the chairman of the board of trustees to make a statement on.

Mr. VIEN: Therefore, I repeat my question. Will Mr. Stewart read that particular question?

Hon. Mr. STEWART: Certainly I will read it.

Mr. VIEN: Will he read the particular section of the statement, so that there will be no doubt about it?

Mr. BOTHWELL: Before that is read, I want to make my position clear so far as this whole matter is concerned. I hardly think it is fair to ask the Chairman of the Board of Trustees to make a statement in answer to a statement made by the minister on the floor of the house.

Mr. VIEN: I agree.

Mr. BOTHWELL: We are a fact finding committee and we have to make a report to the house in connection with the management of the Canadian National Railways, on the reference made to this committee. The statement that has been read from Hansard may be analyzed and certain questions asked on it. The argument then can take place in the house on the facts elicited from the answers to those questions. It is not a fair proceeding, as I see it, and it never was contemplated by the reference to this committee, that we should have a statement taken from Hansard, a statement filed in answer to that by the chairman of the board and then introduce those on the floor of the house. We are only supposed to find facts and argue what we see fit when we get on the floor of the house.

Mr. WALSH: If you will permit a new member of this committee to interpret himself, I would like to lend my support to the contention of Mr. Stewart. The minister did make certain statements which I consider rather damaging to the management of the Canadian National Railways; and this is the only opportunity that any member of the house has of getting the official point of view from the chairman of the board of trustees or from any member of the board of trustees. When we are debating this on the floor of the house, it is all very well for us to express our opinion as being contrary to the opinion expressed by the Minister of Railways. But here we have the other contending authority in contradiction to the statements made by the Minister of Railways, and it is our only opportunity of hearing the point of view of the trustees and particularly of the Chairman of the board of trustees. No one else is in a proper position to reply to the statements made by the Minister of Railways except the Chairman of the board of trustees. I think it is in the interests of the Canadian National Railways, that it is in the public interests, and that it is in the interest of the members of this committee, to have a statement from the Chairman of the board of trustees so that we will know and get his point of view. Then we will be in a position to judge as between the statement made on the floor of the house by the Minister of Railways and the statement that would be made here before this committee by the Chairman of the board of trustees. In that way we would be able to effectively and efficiently carry on a debate in the house. We cannot do so under present conditions. We cannot take the statement made

by the Minister of Railways in the house and just simply contradict this statement, or give our opinion in contradiction to it. It would merely be the opinion of one lay mind against another lay mind, and would get us nowhere. Here is the authority. I think we should be in a position in the house to quote not only the Minister of Railways but also the Chairman of the board of trustees in substantiation of any statement that we might make or would desire to make on the floor of the house when the bill is in committee. I would like to urge Mr. Stewart's point of view—and in that he was partially supported by the member from Winnipeg—that Mr. Fullerton be given an opportunity to make a statement before this committee. Then from that statement certain specific and definite questions can be asked that would elicit information that would be in the public interest and help us, materially help us, in preparing the report that we are to present, no doubt, to parliament in due course. We are not in a position to prepare that report adequately unless we hear from Mr. Fullerton. That is my position. I would like to emphasize that position. I would like to urge that some consideration be given to Mr. Stewart's request, and that possibly we might adjourn this feature of the committee meeting this morning and give Mr. Fullerton until tomorrow at eleven to prepare a statement to present to this committee.

The CHAIRMAN: I would like to remind you of one thing, I think the whole discussion is out of order. You must remember this, that we have had a special order of reference submitted to this committee and we cannot exceed that. This question is sub judice, it is before the house at the present time, and the speech made by the minister was the speech introducing the special bill. I told Mr. Fullerton that I did not expect that this committee would have the right to discuss either the minister's speech or the bill before the house at the present time, unless or until such time as the House of Commons would decide whether the Bill would be discussed in committee of the whole, or whether it would be referred to this Special Committee on Railways and Shipping for consideration. It is my plain duty to bring to your attention that at the present time you have nothing before you; you have neither the right to discuss the minister's statement nor the Bill which is now before the House of Commons until such time as the House of Commons decides to submit that Bill to us for discussion and comment. Until such time I must declare the whole of this discussion out of order.

Mr. BEAUBIEN: The Bill was introduced into the House of Commons changing the set up of the management of the C.N.R., but it has not been referred to this committee.

Mr. WALSH: I think that any statement made when the house sat as a whole, if it relates to the management of the railways, should be a subject for discussion in this committee.

Mr. BEAUBIEN: I do not see what right this committee has by its own action to discuss, or to ask the board of trustees to comment on, either the statement of the minister or the legislation which is before the house to change the set up of the management of the Canadian National Railways. I made the statement before we started this discussion that in my opinion it was out of order, and I am still of that opinion.

Hon. Mr. STEWART: Mr. Chairman, I want briefly to address the committee before you make any ruling on this matter. Now, I submit that at no time in the past when we have had investigations of the affairs of the Canadian National Railways has the committee ruled that it will not hear a statement from the head of that organization when he says he is prepared to make one.

The CHAIRMAN: Mr. Stewart, the question has never arisen before.

Hon. Mr. STEWART: Here is the situation: I propound certain questions and the trustee says: I am prepared to make a statement if I have time to prepare it. Now, I think that it is in the public interest and in the interest of the Canadian

National Railway, and it is our duty as a committee, when the head of a board of trustees says I am prepared to make a statement on matters that are more or less controversial, reflecting to some extent upon the administration of the railways and the results achieved by the board; I say for this committee to say that he shall not have the opportunity, and that we will not hear him—

The CHAIRMAN: Nobody has said that, Mr. Stewart.

Hon. Mr. STEWART: That is what I understand, we were just going to shut this all off.

The CHAIRMAN: Nothing doing.

Hon. Mr. STEWART: I say, that is contrary to all the practices and to the spirit of all investigations that have ever taken place into the Canadian National Railways, and that it is in the public interest, and that it is in the interest of the Canadian National Railways that no such course should be adopted.

The CHAIRMAN: May I ask you a question?

Hon. Mr. STEWART: Yes, Mr. Chairman. And I want to bring the matter to a conclusion by moving that the chairman be requested to prepare a statement of the position of the board of trustees with respect to these controversial matters, that statement to be submitted to this committee.

The CHAIRMAN: May I point out, Mr. Stewart, that you appear to have forgotten one principal point; that the Bill is still before the house.

Hon. Mr. STEWART: Exactly.

The CHAIRMAN: It has not been decided that the Bill shall not be referred to this committee. I submit that should the House of Commons decide instead of considering this Bill in committee of the whole to submit it to this committee then will come the time for us to discuss the points you are raising now.

Hon. Mr. STEWART: Now, Mr. Chairman, I am afraid you are overlooking the position I have taken all through. I do not propose to discuss that Bill, or the provisions of that Bill, at all. I want to make that perfectly clear. I am not asking that the Bill be referred to this committee that we may discuss its provisions, nor do I desire to make any discussion in connection with it at all. All I am asking is that we do discuss and examine the statement made by the minister in connection with the management of the railway.

Mr. BEAUBIEN: The minister is not under investigation here, Mr. Chairman.

Hon. Mr. STEWART: I am not investigating the minister at all. The minister has the right to make any statement he likes in the house, and I say that the board of trustees, through its chairman, and I make this statement with the greatest respect, ought to be called upon, ought to be authorized, ought to be directed, ought to be requested to make a statement with respect to their administration during their period of office, which to a considerable extent is criticized, and which criticism to a certain extent places them under a cloud; I say that they should have the opportunity, each and every one of them if they want it, to clear that up and to make their own statements. And I say that if this committee shuts that off and acts as suggested, that we will not be allowed to get this statement, that then we are stopping short of our duty, we are acting in a manner altogether different from what has been carried on in the past.

Hon. Mr. HOWE: I might say, Mr. Stewart, that the trustees have already made two annual statements. No one is preventing them from making any statement at any time or in any place they like. Why insist that they make a statement before this particular committee to which this bill has not been referred? They can make a statement in the newspapers if they want to.

Hon. Mr. STEWART: I say that this is the proper place in which to investigate matters relating to the Canadian National Railways. The press is not the place. This committee should be the place in which to get the facts.

The CHAIRMAN: The statement made by the Minister of Railways while introducing the bill was a statement which he read, and that statement related absolutely to the bill which he was introducing. I consider that his remarks in the House of Commons formed part and parcel of the same meeting of the house as that at which this bill was introduced and discussed. And I claim—I may be wrong, but I am in the hands of the committee—that the statement of the minister as well as the bill itself is not before this committee for discussion.

Some Hon. MEMBERS: Hear, hear.

Hon. Mr. STEWART: Might I try to make my position clear, I am not discussing the bill.

The CHAIRMAN: But you are discussing the introduction of the bill.

Hon. Mr. STEWART: No. I am discussing a statement made by the minister in the House of Commons in connection with the administration of the Canadian National Railways. I am not discussing the wisdom of the bill, the right of the government to change it—they have a perfect right if they think that a board of directors or managers or whatever it is you call them is better than a board of trustees, they have the perfect right to make the change; and the government do not have to refer that to this committee at all, it is a matter of policy. But I say that this is a statement in connection with the management of the railways, and the actions and views of these trustees; and I say that they should have the opportunity, and I think it is only fair—the suggestion is an excellent one—that the chairman should prepare a statement such as he wants to make. I do not want to press him into making any statement at all, but I think it is only fair that he should be given the opportunity to make such a statement as he may wish to on behalf of himself and his co-trustees. I think it is due to them, I think it is due to this committee, I think it is due to the Canadian National Railways, I think it is due to parliament, and I think it is due to the public that they should have the opportunity to make their position clear.

Mr. HEAPS: Mr. Chairman, I think when we read over the minister's statement at that time we will find it places the chairman of the board of trustees in a somewhat delicate position. I think in the earlier part of the meeting the minister stated that he had no objection to the board of trustees making a statement if they wished to make one. While I think such a statement desirable I do not think it should be secured by way of resolution of this committee. Personally, while I am in favour of giving the chairman of the board of trustees an opportunity to make a statement, I do not want it done by way of resolution of this committee. I think there should be an understanding that if the chairman of the board wishes to make a statement to this committee he should have the opportunity of so doing. At the same time, I do not want to see any of the board of trustees get into a personal wrangle with the minister over this matter. I do not want to see a statement prepared even that would answer some of the questions asked by Mr. Stewart. After all, some people may think that I am a pretty poor sort of member of parliament, and they may be right in that.

Some Hon. MEMBERS: No, no. . .

Mr. HEAPS: However, I make the suggestion that the opportunity should be given to Mr. Fullerton to make a statement if he so desires. He might make it to-morrow morning, and in the meantime Mr. Stewart might perhaps withdraw his motion.

Hon. Mr. STEWART: That is quite satisfactory to me. That is all I want.

Mr. BOTHWELL: I want to draw the attention of the committee to this fact, that in the annual report of the Canadian National Railway System there appears about twelve and a half pages comprising a report by the board of trustees, and we went through this report in committee. I might argue, having that report

in mind, that the minister's statement was wrong, and I might take certain statements in connection with the co-operative measures that have been taken, and other statements relating to the co-ordination of services between the C.P.R. and the C.N.R., and with them contradict the statements made by the minister in the house, arguing from that particular angle. It seems to me that the board of trustees have already made their report, just as fully as did the minister in making his statement in the house; and if there are any specific questions that might be asked on that report arising out of the statement made by the minister in the house, I think that is as far as this committee should go.

The CHAIRMAN: That is all, I think.

Hon. Mr. STEWART: In answer to that I want to say that that report was submitted to this committee before the minister made his speech in the house.

The CHAIRMAN: That is the reason why you are killing your own argument, Mr. Stewart. The order of reference to this committee was prepared a considerable time before the minister made his speech in the House of Commons, so that it could not possibly be referred to this committee for discussion then, and it cannot come before this committee until such time as the house may decide to refer the bill to us. If they do that we will then have full power to discuss it.

Mr. HEAPS: Mr. Chairman, if the chairman of the board of trustees makes a statement to this committee, say to-morrow morning, we are not suggesting what he is going to put in it. I do not think we should do that. I think his good judgment will enable him to decide what statement he should make to this committee. No one is suggesting that he has got to answer the speech made by the minister on the floor of the house. As far as I can see it, the position in which Mr. Fullerton has been placed is such that it is to be inferred that he may not long continue to occupy that position. I think any person finding himself in such a position has a right to make a statement to this committee. Now, I want to ask a further question: Supposing this committee takes such a stand this morning as will not permit of his making a statement, what is going to be the inference?

The CHAIRMAN: I do not believe that we have the power to give him that chance.

Mr. HEAPS: Have we the power to refuse him that opportunity?

The CHAIRMAN: No, no; that is not the point.

Mr. HEAPS: I do not think any member of this committee would for a moment wish to refuse Mr. Fullerton the opportunity to make any statement to the committee he may desire.

Mr. MAYBANK: As I see it, the proposition that is before this committee does not come from the chairman of the board of trustees but from Mr. Stewart. The Chairman of the board of trustees claims he did not come here prepared to make a statement, nor did he appear to have any desire to make one. It seems to me, from what has gone on in this committee hitherto, no person, and certainly not the chairman of the board of trustees, is debarred from making a statement. In so far as it should be his desire to file a statement in answer, shall we say to the charges—I presume it is based on that conclusion—which have been made are concerned, I should think that would require no further argument, and what Mr. Stewart has said along that line is hardly necessary.

In as far as Mr. Stewart takes the position of desiring to defend the chairman of the board of trustees, it is quite unnecessary. But in the method which he has adopted here this morning, what he is really leading us into, I think, is this: into making a large number of speeches, charges and countercharges back and forth. That is all we should get. If the chairman of the board wants to submit a statement, we might find ourselves in a different position—if he does so; but at the moment Mr. Stewart takes a speech that the minister made, which is

debatable in the house not merely in respect of its general terms but in detail in committee of the whole where, doubtless, it will be subjected to considerable argument, and he wants to go over all that here and again in the house. If Mr. Stewart goes ahead, what that amounts to is just introducing about fifteen days of high powered speech making in this committee, and in the end we will not be a bit farther ahead than we are now. As far as the chairman's position is concerned, it is open to him to make a statement any time he likes and submit it to the committee, and the committee can receive it and lay it on the table.

The CHAIRMAN: Suppose we ask the chairman of the board of trustees and each of the trustees to make a statement in writing to be submitted in advance to the chairman of this committee, and to be discussed here in this committee on Tuesday next.

Mr. McLARTY: If they desire to do so.

The CHAIRMAN: If they desire to do so. And I would like to remind you of the fact that in the minister's speech the chairman of the board of trustees was not mentioned—the trustees were mentioned; therefore, the three trustees should be heard.

Mr. HEAPS: Why have a week's delay.

The CHAIRMAN: To give them a chance to prepare their own statement; to give us a chance to see it in advance, and to give the minister a chance to answer it.

Mr. HEAPS: All right.

The CHAIRMAN: I think it is only proper.

Mr. VIEN: I would like to urge that no person can make a statement or be asked to make a statement except with reference to matters that are subjected to our investigation. Therefore, in any statement to be made by members of the board of trustees they should limit themselves not to discussion that is not being referred to the committee, but to the matters that are within our reference.

The CHAIRMAN: If we are limited by our reference we have no power to ask them to make a statement.

Mr. VIEN: And I submit respectfully, Mr. Chairman, that it would be absolutely without our jurisdiction to ask any member or to allow any member to speak on any subject which is not within our order of reference.

Mr. LABELLE: Are we going to make statements on the matters referred to the committee? If so, I do not see—unless my chairman disagrees with me—that we can make any other comments than those made in the reports we have submitted to parliament. I would like to be clear upon what kind of statement you expect from us.

Mr. VIEN: We cannot ask any witness to come here and talk on any subject which is not within the order of reference; and, Mr. Chairman, if anybody submitted a statement on any subject which is without our order of reference, any member should rise on a point of order and ask that it be declared irrelevant. Therefore, I would like to direct the attention of all concerned to the fact that any statement to be made must be within the order of references—that is exclusively—or, if necessary, reports that have been studied by the committee already.

Hon. Mr. FULLERTON: Let me say this to the committee: as far as my statement is concerned, I will make no reference in any way to Mr. Howe's speech. I want to avoid it. But if the opportunity is given me I propose to deal with the management of the Canadian National Railways since I became chairman—the financial management, co-operation and so on. That is what I propose to deal with. I do not want to get into any cat and dog fight with the minister. That would not be in the interest of the railway. All this thing is going to hurt the railway; cannot help it; it is impossible, and the less we have of that the

better. But I do court the opportunity of appearing before some committee—I do not care whether it is before this committee or any other committee—I think I am entitled to an opportunity to answer any charges that have been made against me in connection with my management of the Canadian National Railways. I think it is only fair and just to me.

Hon. Mr. STEWART: Mr. Chairman, again I want to make it perfectly clear that in making the statement I sought to avoid anything like a cat and dog fight between the minister and the chairman of the board of trustees. I said that was not in the interest of the Canadian National Railways; in the past there had been too much of that sort of thing; and for that reason I was sure that the chairman of the board of trustees should make his statement, and that is what he wishes to do.

Mr. HEAPS: I think the statement of Mr. Fullerton should clear the whole air, and let it go out that way. Perhaps, Mr. Stewart might withdraw the motion he submitted to the committee.

The CHAIRMAN: Then, gentlemen, you are proposing a new mode of procedure in this committee. I think you realize that.

Hon. Mr. STEWART: No, we are not.

The CHAIRMAN: You are creating another order of procedure, that is all there is to it.

Hon. Mr. STEWART: No. Has there been no time when Sir Henry Thornton or any of the board of directors, managers or trustees have not been permitted to make statements on invitation?

The CHAIRMAN: The first question I asked Mr. Fullerton when the committee met at first was if he had any further comment to make personally on the report itself, and he said: "No, my report is there." And the report was so full and complete that you could not ask for any better explanation. Now, you are creating a new order of reference. There is no doubt about it. It is a tremendous precedent.

Mr. WALSH: Mr. Fullerton has changed his mind, apparently.

Mr. BOTHWELL: I think that in the statement to be made by Mr. Fullerton he is going to elaborate on the statement made by the board of trustees as to the management of the railway under his jurisdiction.

Hon. Mr. FULLERTON: That is right.

Mr. BOTHWELL: And I think the committee should receive a report of that kind.

The CHAIRMAN: I have no objection. Is it understood that the three trustees, if they so desire, shall have the chance of making a report in writing for next Tuesday morning? They will be here to submit to the members of the committee a report. I want this report to be sent in advance direct to the minister. I think he is entitled to receive the report in writing, because when it is submitted to the committee it is only fair that the minister shall be in a position to answer those statements if he wants to do so.

Mr. WALSH: Don't you think it should be submitted to the Minister of Railways and should also be submitted to Mr. Stewart who is anxious to see the nature of it?

The CHAIRMAN: I see no objection whatever.

Mr. WALSH: It is only fair.

The CHAIRMAN: I think every member of the committee should have a copy.

Mr. KINLEY: In so far as the further report of Mr. Fullerton and the other trustees is concerned, it will be simply an amplification of their annual report. With regard to this discussion and anything else, I think we are wasting time. The die is cast. The minister and the government have decided that in the present condition of the Canadian National Railways they want a new set-up—

Mr. WALSH: Our committee are not investigating that.

Mr. KINLEY: That is the point. They have asked for the resignations of the trustees.

Mr. WALSH: You are out of order.

The CHAIRMAN: We have been out of order for the last hour.

Mr. KINLEY: The situation is this, that the government desire a new set-up, and they want the retirement of the trustees which, evidently, has not been facilitated. Now, we are only wasting time trying to justify the trustees, because what the minister said was that in his opinion the condition exists. It is only an opinion after all, and it is an opinion that any business man will give on a condition that he wants remedied.

Mr. VIEN: But is it a question of policy which is not within our order of reference.

The CHAIRMAN: Is it the wish of the committee that the chairman of the board of trustees and that the trustees themselves shall prepare a report in writing?

Mr. HEAPS: If they wish.

The CHAIRMAN: If they wish, of course—to be submitted to the Minister of Railways in advance, to the chairman of the committee and to the members of the committee.

Hon. MEMBERS: No, no.

The CHAIRMAN: Yes. It is a new order or procedure; you had better make your own rules.

Mr. BEAUBIEN: Before the committee comes to a decision, I want to register my protest on this procedure, because I believe it is entirely out of order.

The CHAIRMAN: So do I. But still it appears to be the consensus of opinion, and the minister seems to be willing to take that procedure.

Mr. BOTHWELL: I think we should confine the report to the chairman of the committee, the Minister of Railways, and Mr. Stewart.

Mr. HANSON: Why Mr. Stewart more than anybody else?

Mr. BOTHWELL: I do not believe it should be scattered among the members of the committee until we meet in committee meeting where we can hear the comments of the minister or anybody else. If it is distributed to the whole committee it will be in the press before there is any answer.

The CHAIRMAN: Then I shall eliminate every member of the committee and Mr. Stewart.

Hon. Mr. STEWART: Quite so.

The CHAIRMAN: And the report will be submitted direct to the minister in writing, and then we will meet again on Tuesday next.

Mr. McLARTY: What is the objection to each member of the committee obtaining the report?

Mr. VIEN: I submit that the report be submitted to the chairman so as to determine whether it is within the order of reference and in order, because we will be up against the same point of order, whether from the chairman or any member of the committee, if there is anything in these reports which is not within our order of reference. Therefore, the chairman should be called upon to determine whether this statement is in order.

The CHAIRMAN: I have no objection whatever to the report being sent to the chairman, provided I have the permission of the committee to show it to the minister.

Hon. Mr. STEWART: Certainly.

Mr. VIEN: It should be sent to the minister, and then to the chairman of the committee.

The CHAIRMAN: That is what I suggested. Is that agreed to?

Carried.

Hon. Mr. STEWART: I withdraw my motion. As to whether the report would be in order, I suppose that would be for the committee to determine, and not for the chairman. The chairman would not determine that.

The CHAIRMAN: The chairman will take as little responsibility as he can.

Hon. Mr. STEWART: Without going into details, I would like to ask the chairman of the board of trustees to pay some attention to page 2368 of Hansard—Mr. Howe's speech.

Hon. MEMBERS: No, no.

The CHAIRMAN: That is not fair.

Mr. HEAPS: On a point of order, Mr. Chairman. I did support Mr. Stewart before, but I do not think it is fair now to suggest anything.

The CHAIRMAN: I agree with you, and I am sure Mr. Stewart will agree with me also.

Hon. Mr. STEWART: There are some very serious charges made.

The CHAIRMAN: The chairman of the board of trustees will read them in Hansard.

Hon. Mr. STEWART: That is what I wanted to say. I did not propose to read them. All I said was that the chairman of the board of trustees should pay some attention to them.

The CHAIRMAN: A decision has been given by the committee, and I think we had better abide by it. There is another point I would like to bring up before the committee—

Hon. Mr. STEWART: If there is any correspondence about the resignations of the board of trustees, I should like to have that produced.

The CHAIRMAN: That is another thing altogether. I do not think that has anything to do with it. I should like to bring up this point: While considering the estimates of the Canadian National Railways we forgot to mention specifically in committee the three items that are contained in the main vote—items 84, 85 and 86. I did mention them when we considered the estimates, but we have not recorded our decision.

Mr. VIEN: I move that they be adopted and reported.

(Carried.)

The committee adjourned to meet Tuesday, June 2, 1936, at 11 o'clock a.m.

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Standing Committee

SESSION 1936

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HOUSE OF COMMONS

STANDING COMMITTEE

ON

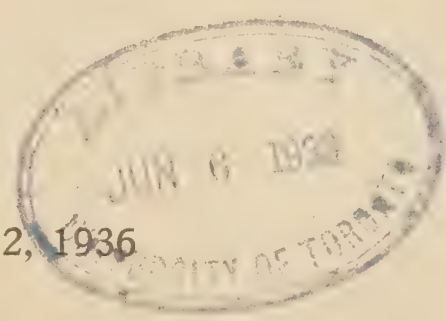
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE
(Including Third and Final Report)

No. 7

TUESDAY, JUNE 2, 1936



WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.

Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways.

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1936

REPORTS TO THE HOUSE

(THIRD AND FINAL REPORT)

WEDNESDAY, June 3, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the government, begs leave to present the following as its

THIRD AND FINAL REPORT

Your committee, appointed under Order of Reference dated April 6, 1936, to consider the accounts and estimates of the Canadian National Railways and the Canadian Government Merchant Marine, held nine sittings in the course of which the following witnesses were examined:—

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways;
- Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways;
- Mr. F. K. Morrow, Trustee, Canadian National Railways;
- Mr. S. J. Hungerford, President, Canadian National Railways;
- Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Canadian National Railways;
- Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways;
- Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways;
- Mr. B. J. Roberts, Assistant Deputy Minister of Finance.

Your committee had under consideration item No. 286 of the supplementary estimates for the fiscal year ending March 31, 1933, net income deficit of the Canadian National Railways, \$47,421,464.80; also the following items of the special supplementary estimates for the fiscal year ending March 31, 1937, viz: No. 426—\$39,900,000 to be applied by the Canadian National Railway Company in payment of net income deficits arising in the calendar year 1936; No. 427—\$1,109,400 to provide for loans and investments; No. 428—\$5,303,000 to provide for commitments incurred under authority of section 9, Supplementary Public Works Construction Act, 1935.

These different items were approved and reported on April 30, 1936. In addition, the committee reported two items of \$2,500,000 and \$7,459,000, respectively, from the Canadian National Railways budget for the calendar year 1936, representing capital expenditure and debt retirements to be provided by way of loan to the Canadian National Railway Company and covered by a resolution standing on the order paper of the house in the name of the Minister of Finance.

Your committee has also approved of the following estimates for the fiscal year ending March 31, 1937:—

Items Nos. 84 and 85: *Re Maritime Freight Rates Act*—\$800,000 and \$1,740,000, respectively;

Item No. 86: Deficit of Canadian National (West Indies) Steamships, Limited—\$370,000.

With respect to the anticipated deficit item of \$39,900,000 for the calendar year 1936, it will be noted that the policy of making provision for this amount in

the estimates is substituted for the practice of enacting legislation giving the Minister of Finance the authority to advance the moneys from time to time as required. Your committee favours this new departure, the effect of which is to place the item before parliament in specific estimates in the same manner as applies in other government projects.

Consideration by your committee of the financial status of the Canadian National Railway System was effected by examining the trustees and officials above mentioned, on the following detailed statements:—

1. Annual report of the Canadian National Railway System for 1935;
2. Annual reports of the Canadian Government Merchant Marine, Ltd., and the Canadian National (West Indies) Steamships, Ltd., for 1935;
3. Summary of 1935 estimated financial requirements compared with actual requirements;
4. Analysis of 1935 operations;
5. Budget for the year 1936;
6. Auditors' report on the accounts of the Canadian National Railway System for the year ended December 31, 1935;
7. Memorandum on depreciation accounting;
8. Special problem of equipment retirements resulting from the depression and highway competition.

Examination of the Canadian National Railways budget for the calendar year, 1936, reveals that the operating revenues are estimated at \$190,000,000 and the operating expenses at \$172,500,000. Sundry items charged against operating revenues including interest on long term debt due to the public, amount to \$61,300,000, showing an estimated deficit on the year's operations of \$43,800,000. In this amount, however, are incorporated the following items not required in cash, viz: depreciation reserve, \$450,000; amortization of discount on funded debt, \$1,027,000; loss on retirement of equipment, \$2,423,000; in all, \$3,900,000, reducing the anticipated net cash requirement on deficit account to \$39,900,000.

With respect to the Canadian Merchant Marine, your committee has been informed that the transfer of its fleet to other interests has practically been concluded. It is estimated that the continued operation of this service by the railways would have necessitated a further outlay of approximately \$6,000,000. Your committee has the assurance that with the new arrangement to be entered into for the operation of the Australian service, Canadian interests will be fully safeguarded.

In view of the disposal of this marine service, it has been found necessary in the consideration of the annual report and budget of the Canadian National Steamships, to amend an item of \$199,450, provided as total requirement, by substituting therefor, an amount of \$399,450, thus eliminating the operating income of the Canadian Government Merchant Marine which had been estimated at \$200,000.

In the course of its deliberations your committee has discussed the question of recapitalization and the advisability of writing down the capital structure of the Canadian National Railways.

Examination of the Board of Trustees elicited the fact that the matter had been the subject of further study during the year and also the opinion that the question involves a matter of Government policy rather than a direct responsibility of the Board of Trustees.

Your committee is satisfied that certain adjustments could be made which would be reflected in the balance sheet. In view, however, of the Minister of Railways' statement that the question was under advisement and that the committee could expect to have the question referred to them under concrete proposals at the next session of Parliament, your committee refrains, at this time, from making any recommendation.

A copy of the proceedings and evidence of the committee is annexed hereto.

All of which is respectfully submitted.

EUGÈNE Fiset,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1936.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m., the Chairman, Sir Eugène Fiset, presiding.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Elliott (*Kindersley*), Ferland, Gray, Hanson, Heaps, Howe, Kinley, McLarty, Maybank, Parent (*Quebec West and South*), Stewart, Walsh, Young.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, K.C., Trustee, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, and Mr. G. W. Yates, Assistant Deputy Minister and Secretary, Department of Railways and Canals.

Mr. Fullerton read a statement on the administration of the Canadian National Railways since the appointment of the Board of Trustees.

Mr. Labelle also made a brief statement.

The chairman stated that he had received word from Mr. Morrow to the effect that he had nothing to add to what was contained in the Trustees' Annual Report.

A statement by the Minister of Railways and Canals, Hon. Mr. Howe, followed.

Mr. Fullerton was again briefly examined on the annual report of the Canadian National Railways, after which the chairman thanked him for his attendance before the committee.

Witnesses retired.

At this stage the committee adjourned for a few minutes, to resume its sitting *in camera*.

Copies of a draft report having been submitted to the members of the committee, the said report was considered and amended.

On motion of Mr. Young,—

Resolved,—That the report, as amended, be approved, and that the chairman be authorized to submit same to the House.

The committee having taken into further consideration the communication from Sir E. W. Beatty presented to the committee at its previous sitting, it was agreed that this communication be printed as an appendix to this day's proceedings together with Mr. Fairweather's comments thereon.

The committee adjourned *sine die*.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

June 2, 1936.

The Standing Committee on Railways and Shipping met at 11 o'clock, Sir Eugène Fiset, the chairman, presided.

The CHAIRMAN: Order, gentlemen. In accordance with the wishes expressed by the committee last week, Judge Fullerton has prepared a report. He has sent a copy to the minister and also a copy to me. This report was to be, practically speaking, reviewed by us. I have no objection whatever to the report, and I am going to ask, with the unanimous consent of the committee, that Judge Fullerton be kind enough to read his report in toto.

(Carried).

Hon. Mr. FULLERTON: To the chairman and members of the select standing committee on railways and shipping: I wish to express to the committee my appreciation of the opportunity afforded me to make a statement regarding the work of the board of trustees and what we have been able to accomplish. The board is also sincerely appreciative of the fair treatment which in general it has received at the hands of the public and of the press.

Speaking in a purely personal sense, it will, I think, be realized that I am placed in a position of singular difficulty. I am not a free agent, but a trustee of a great national property. It is not, in my view, fitting or proper that I should, by any act or word beyond what is absolutely necessary, seek to justify myself at the expense of, or to asperse the motives and understanding of others, who, whether holding special relationship to the state or as private individuals, have undoubted rights to examine and discuss the conduct of the board of trustees and the affairs of the railway. Since my appointment as chairman of the trustees, however, there have been several occasions when the temptation was strong to refute what I considered unfair criticisms and unwarranted statements with the same degree of publicity as that with which these were made, but on reflection I felt that public controversy would only tend to embitter circumstances already difficult enough, and that, in so far as these criticisms and statements were based on personal opinions and personal interest, there was little likelihood of their being changed, while in so far as they were based on misapprehension or inaccuracy, a complete answer could be had from a reference to the actual facts themselves. Further, I cannot conceive of anything more likely to have an unsettling effect on those engaged in operating the railway than public argument centered on the system, and that, whatever satisfaction one might obtain from such controversies, they cannot in the end be of benefit to the railway over which I have been placed. I consider it to be my duty, therefore, as long as I hold my present position, to subordinate all matters of merely personal importance to the interests of the Canadian National Railways, and in the discussion of railway matters to avoid as far as I can anything which would intensify any presently existing differences of view.

The statement, therefore, which I now make must necessarily be confined within strict limits. I do not pretend that in the course of our work we have been infallible, or even that such success as has attended our efforts is the real goal of our hopes. There is still much to be done. Nor is it our desire to be free from criticism and investigation, but I think we are entitled to expect that such criticism as should be noticed should be based upon ascertained facts, and on those alone. The Canadian National Railways are to-day conducted openly. It may be that in Canada there are enterprises which carry on in as great a searchlight of publicity, but certainly there is none which is

attended with greater. It is, therefore, the case that no citizen of Canada need be under any misapprehension as to the facts of any particular matter. In a general sense, the facts pertaining to the trustees' management of the property committee to them are embodied in the annual reports submitted to parliament through the Minister of Railways, while in the committee set up to examine these reports explanations of any matter in doubt have been readily forthcoming. These reports for the last two years show in incontrovertible figures the actual position of the railway and its operations during that period, and I am only too ready to compare the efficiency of its administration during those two years of the railway's history with any two preceding years.

The Act of Parliament under which the trustees were appointed is based on what is known as the Duff report. The four vital findings of the Duff report were:—

1. That "The conduct of the affairs of the National Railway has been subjected in the past to political and public pressure." (See paragraph 142 of the report.)
2. That "The directors' functions have been in practice nothing more than advisory. It would seem that they generally gave formal approval to programs of expenditures which they appeared to regard as the main concern of the president and the government." (See paragraph 145 of the report.)
3. That "Running through its administrative practices, however, has been the red thread of extravagance. The disciplinary check upon undue expenditure, inherent in private corporations because of their limited financial resources, has not been in evidence." (See paragraph 33 of the report.)
4. That "Within the railway organization there has been freedom in expenditures and encouragement in plans for expansion and extension of services which were inconsistent with prudent administrative practice." (See paragraph 34 of the report.)

These were the fundamental defects which the Duff Commission believed could be remedied by a trustee system of direction. I wish to say most emphatically that we have exerted every effort to vindicate the hopes of the commission, and to add with some pride that, having regard to the brief time so far elapsed, we have achieved a substantial measure of success. So far as I have ever heard, there has not even been an allegation that the Board of Trustees has been influenced in the slightest degree by any political consideration at any time. The board has acted at all times, or endeavoured to act, as business men of broad and far-reaching responsibilities would act.

When we entered into office there had already been some years of the depression, and already great and needed economies had been put into effect, but under the management of the trustees these economies, in spite of obvious difficulties, were augmented, and to-day, when all the factors affecting the railway are taken into consideration, it is my confident claim that the railway is more economically operated, that its efficiency as a transportation system is greater, and that it is better equipped, from the viewpoint of prospective profit, to deal with business expansion than it ever was before. The proof of these claims will be found in the public records of the company.

In considering the results for the railway system during the regime of the trustees, it must be constantly kept in mind that for some years back the depression has borne down with particular severity on railway companies in general. They have suffered as well and particularly from the competition of new and recently developed methods of transportation. One has only to look at the position of railway companies in the United States and other lands to realize the significance of this fact. Having this truth ever in mind, and as well the history of the National Railways themselves, and the fact that a very

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great proportion of their mileage was not constructed with a view to profit but rather for great national purposes, it becomes clear that it is very easy to expect too much in the way of restoration of this great system to a favourable operating basis.

The trustees have had control of the railway since January 1, 1934. The financial results for 1934 and 1935 are contained in the reports of the trustees which have been submitted to parliament. Let us compare the results in 1934 and 1935 with the year 1933 to see what has been accomplished. The published statements show that during 1934 and 1935 the gross revenues averaged \$20,523,759 more than in 1933. The statements show further that the cash deficit in 1934 was \$10,547,488 less than in 1933, and that in 1935 it was \$11,533,924 less than in 1933, or an average reduction of \$11,040,706, which is equal to 54 per cent of the increase in gross revenue. We consider this to be a very satisfactory performance under the difficult conditions which have prevailed. For the two years combined the reduction in the amount of cash which the government had to find to meet the deficit of the railway was \$22,081,412.

There have appeared remarks very recently concerning the efficiency of the Canadian National Railways' organization, and I propose to make a comparison between the results achieved by National Railways on the one hand, and those of Canadian Pacific Railway, and what are known as class 1 railways of the United States. In making this comparison I wish it to be clearly understood that neither directly nor by inference am I casting any reflection on the management of the systems mentioned; it is only because of the necessity of adopting some well-known and accepted standard that I refer to them. In the first year of the trustees' administration of National Railways, 1934, as compared with the immediately preceding one, the operating revenues increased by 11 per cent, while operating expenses went up 6·39 per cent. In 1934, the Canadian Pacific Railways' operating revenues increased by 9·9 per cent over the previous year, while expenses increased by 6·7 per cent. On class 1 railways of the United States revenues in the same period increased 5·7 per cent and expenses 8·5 per cent. It will be noted that notwithstanding National Railways had the largest percentage of operating revenue increase, its percentage increase in expenses was less than that of the Canadian Pacific Railway and Class 1 United States railways.

In 1935 the operating revenues of the National Railways were 5·02 per cent greater than in 1934, while operating costs went up 4·6 per cent. In the same year Canadian Pacific Railway revenues increased 3·3 per cent and their expenses 6·1 per cent, while class 1 United States lines operating revenues increased by 5·5 per cent and expenses 6·3 per cent. Again it will be noted that the percentage increase of revenue was greater for the Canadian National Railways than for the Canadian Pacific Railway, and nearly equal with class 1 roads, while the percentage increase of expenses was least. In the accomplishment of those results the railway was maintained at the high standard which the traffic demanded.

A word should, perhaps, be said about the ratio of gross revenues which is absorbed by operating expenses. This is, to a large extent, dependent on traffic density and other traffic characteristics, as obviously there must be great difference of cost in operation in territories which are well populated, as compared with those which are not, and in the transportation of commodities which pay substantial freight rates as compared with those which, while occupying space and being heavy, pay low and, in some cases, uneconomic rates. No railway has, of course, a monopoly of either kind of territory or traffic, but it varies on all lines, and the ratio of cost of operation to the revenue derived varies also. Comparisons are, therefore, difficult to make, but it may be of interest to state that, whereas the Canadian Pacific Railway operating ratio increased from 79·38 in 1933 to 79·56 in 1935, the National Railways operating ratio decreased from 96·16 in 1933 to 91·77 in 1935. The operating ratio of class 1 roads increased from 72·67 in 1933 to 75·11 in 1935.

A word may be added as to capital expenditures. Members of the committee will recall that the Duff Commission reported the capital expenditures during the period 1923-1931 had been \$456,345,456, an average of \$50,705,000 per annum. During the two years 1934-1935 the retirements exceeded the additions and betterments, that is to say, not any additional funds were required in those two years on capital expenditure account.

I now turn to the departments which came under my direct management. Section 10 of the 1933 Act provides:—

The trustees shall appoint, on terms to be fixed by them, and with the titular rank of president, a person other than one of themselves to execute and perform, under and in consultation with them, the powers, authorities and duties of chief operating officer of National Railways, as such powers, authorities and duties shall be from time to time defined by bylaw or resolution of the trustees and committed for execution and performance. The president shall report and be responsible to the trustees and to them alone.

It is my view that the person who fills this position has a task requiring not only high technical skill, but demanding his full time and attention. On January 31, 1934, the trustees appointed Mr. S. J. Hungerford as chief operating officer. In arranging the division of departments between the president and myself I took over those departments which were not connected with the actual operation of the railway. Those connected with the operation of the railway proper were assigned to the president, and I have never at any time interfered in their operation, although I recognize that the ultimate responsibility for the efficiency of those operations rests with the board. The working out of this arrangement has been harmonious and I have never heard of any complaint from any railway officer.

Under my direct supervision came the following nine departments: Legal, treasury and accounting, publicity, medical, colonization and agriculture, secretary, land and property, hotels and steamships.

Turning first to the steamship services, we find the improvement is even more striking than in the case of the railways. It is well known that the Canadian Government Merchant Marine was a losing proposition practically from its inception, yet in 1935, after a long sequence of deficits, the line was able to report an operating profit. As was stated in the annual report, notwithstanding that in 1935 there was 24,701 tons of additional cargo to be handled, with an increase of 20 per cent in operating revenue, the operating expenses show an increase of less than 1 per cent over the previous year. This most certainly reflects careful administration and strict economy in the operation of the services to Australia and New Zealand. Comparing the year 1935 with 1933, there was an improvement of \$329,760. The figures are as under:—

1923..	\$1,873,695	operating deficit
1924..	1,450,887	" "
1925..	926,844	" "
1926..	90,159	" "
1927..	720,735	" "
1928..	1,209,083	" "
1929..	878,907	" "
1930..	834,210	" "
1931..	444,285	" "
1932..	326,613	" "
1933..	17,938	" "
1934..	127,265	" "
1935..	311,822	operating profit

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In the other steamship service, that is the West Indies service, we find that the year 1935 is the first year in the history of the company it was possible to report an operating profit. Comparing the year 1935 with 1933, there was an improvement of \$698,027. The figures are as follows:—

1929..	\$ 447,841	operating deficit
1930..	523,136	" "
1931..	446,568	" "
1932..	283,715	" "
1933..	497,997	" "
1934..	96,678	" "
1935..	200,030	operating profit

Taking the combined Merchant Marine and West Indies services, there was an improvement of \$1,027,787 in 1935 compared with 1933. The committee will be especially pleased to know that in our steamship operations for the first five months of this year the operating income of the Merchant Marine is \$160,000 better than the corresponding five months of 1935, and the operating income of the West Indies service is \$198,000 better. In 1935 we had an operating income of \$41,136.74 in the Merchant Marine alone. In 1936 we had an operating profit of \$201,101.03. Taking the West Indies service, for the first five months last year we had an operating income of \$13,430.77. In the present year we have an operating income for the first five months of \$211,944.08.

Turning now to the hotels which were under my direct supervision and control:—

There has been a distinct improvement in the result of hotel operations during the trustees' administration. 1934 was the first year since consolidation that there was a profit from the operation of the company's hotels, the profit for that year being \$37,017. In 1935 the gains were extended, and a profit of \$101,771 reported. Comparing the year 1935 with 1933 there was an improvement of \$274,745. The figures are as under:—

1923..	\$ 162,720	operating deficit
1924..	297,938	" "
1925..	76,366	" "
1926..	38,769	" "
1927..	13,122	" "
1928..	135,056	" "
1929..	1,088,575	" "
1930..	125,068	" "
1931..	193,310	" "
1932..	59,482	" "
1933..	172,974	" "
1934..	37,017	operating profit
1935..	101,771	operating profit

So far as the other departments which were taken over by me are concerned, the results have been, I think, satisfactory. In all the revenue producing departments, as above, losses have been turned into operating profits, while in the other departments which are purely administrative and non-revenue departments, substantial economies have been effected, without any sacrifice of efficiency.

The following tabulation shows the expenditures of these in 1933 and in 1935, and the savings effected:—

Department	Expenditure, 1933	Expenditure, 1935	Saving
Secretarial.. . . .	\$ 144,190	\$ 134,583	\$ 9,607
Colonization and agriculture.. . . .	167,401	132,562	34,839
Publicity.. . . .	743,829	681,601	62,228
Medical.. . . .	196,598	144,627	51,971
Legal.. . . .	572,887	535,458	37,429
Treasury and accounting (including land and property).. . . .	3,764,481	3,595,719	168,762
	<u>\$5,589,386</u>	<u>\$5,224,550</u>	<u>\$364,836</u>

These savings are not, of course, of a temporary nature. Increasing business will naturally affect them, but on the basis of present volume of business, they can be made permanent.

In 1934 I made a survey of all departments, except the operating department, a survey of which Mr. Hungerford undertook and made. In making this survey I had a twofold purpose in view: first, to familiarize myself with the working of these departments, and, second, to see if economies could properly be effected. As a result of the survey an annual saving of over \$700,000 was brought about.

Department	
Sleeping, dining and parlor car.. . . .	\$ 54,495 96
Hotel.. . . .	20,559 50
Canadian National Steamships (C.G.M.M. and West Indies).. . . .	35,250 84
Publicity.. . . .	37,813 52
Investigation.. . . .	55,802 40
Tie and timber.. . . .	.. . . .
Medical.. . . .	40,954 25
Treasury.. . . .	19,157 00
Fuel.. . . .	11,403 00
European traffic organization.. . . .	48,047 78
Purchasing.. . . .	8,311 44
Pass bureau.. . . .	.. . . .
Legal (including tax, claims and agreements).. . . .	12,167 70
Accounting.. . . .	109,980 36
Industrial and natural resources.. . . .	7,814 50
Insurance.. . . .	28,135 00
Pension and staff record.. . . .	.. . . .
Office services.. . . .	.. . . .
Traffic.. . . .	108,261 30
Bureau of statistics.. . . .	.. . . .
Secretary's.. . . .	.. . . .
Colonization and agriculture.. . . .	22,872 83
Telegraphs.. . . .	12,318 00
Stores.. . . .	84,565 45
Express.. . . .	.. . . .
Miscellaneous.. . . .	63,560 67
Total.. . . .	<u>\$781,471 50</u>

Economies, of course, may sometimes be obtained at too great a price. There may be a deterioration in the morale of the employees, and there may be a deterioration in the physical properties of the system. In either case the result would be apparent in decreased efficiency in operation, and the facts all point in the opposite direction. In this connection it may be of interest to quote the opinion of Mr. S. W. Fairweather, Director of the Bureau of Economies, which will be found at page 146 of the 1936 Minutes and Proceedings of the Standing Committee on Railways and Shipping:—

I can say that it is my special job to compare the efficiency of Canadian National Railways with the efficiency of any other road. And I am here to say that I have not yet found any other railway that exceeds the Canadian National Railways in efficiency.

This statement was not questioned by any member of the committee.

[Hon. C. P. Fullerton.]

The subject of morale is one to which I have given a great deal of consideration, for I realize how important it is to develop and maintain the loyalty and pride of all these in the employ of this great national undertaking. When we took office admittedly the morale of the men was low. They had seen their numbers reduced from 111,383 to 70,625, and their total compensation reduced from \$176,000,000 to \$95,000,000. Those whose seniority had so far protected them were uncertain as to the future, their opportunities for promotion slight, and their chance of demotion real. They were fearful of proposals for amalgamation and unification, both of which in their view meant disturbance, less work and less pay. I considered it essential in the interests of the railway itself that the conditions of service should be such as to offer at least as much security of employment as do other professions and occupations, and I made my views on this subject known to the men.

The trustees have been performing their duties for well over two years, and it is only reasonable to assume that unrest of a special nature—for, after all, these are days of unrest everywhere and few workmen in any industry are so fortunately placed as to be exempt from anxiety and uncertainty regarding their employment—would have been observed by such trustees, or, that in their failure to observe a situation so obvious, it would have been brought to their attention by the company's officials whose duties bring them into more intimate contact with the rank and file. In the more than two years no such observation has been made, and no such representation has been received by the trustees. On the contrary, many evidences of sound morale and of satisfaction that at last the railway was settling down to the performance of its functions as an efficient transportation system have been observable, and inquiry of department heads has failed to elicit any opinion that a state of unrest exists of a nature different from that in other industries. Where it has been unfortunately necessary to reduce staffs this has been done strictly in accordance with established rules of seniority, and the same policy has been followed in giving re-employment. In the whole system, so far as the trustees know, no man has been deprived of his job through caprice or for his opinions, or for other than a demonstrable and valid reason, and every man knows that as long as the trustees remain he will only be removed in accordance with well-known rules operating because of age, because of actual misconduct, because of evident inability to perform duty, or because of economic conditions beyond the control of the trustees, in which latter case the principle of seniority applies.

Since the trustees took office we have taken on over 4,000 additional employees, and we have restored part of the wage cuts which were in effect, which action added \$5,000,000 to the payroll. Our payroll in 1935 was \$9,229,000 greater than it was in 1933. The men are more hopeful, they have less to fear, they know they will get a square deal from the trustees, and that is all they ask.

I desire now to make some comment on the matter of co-operation. It must be kept in mind that under the 1933 act, as well as because of the inherent nature of the subject itself, the obligation to agree upon such co-operative measures, plans and arrangements as are fair and reasonable, and best adapted (with due regard to an equitable distribution of burden and advantage as between them) to effect economies and provide for more remunerative operation, is cast equally upon the Canadian National Railways and the Canadian Pacific Railway, and not, as one might be led to suppose, upon the former only. I recognize from its publicly owned nature it is perhaps only natural that public attention should be directed more particularly to the part played by the National Railways than to that by the other party to co-operation, but no impartial and fair survey of the situation will, in this matter, confine criticism—if room for such exists—solely to one system, and I have heard of none applied to the Canadian Pacific Railway.

Only those intimately associated with the activities and negotiations involved in reaching co-operative agreement between the railway companies

can properly appreciate the difficulties which constantly arise. For the compilation of data and the development of necessary details and information, the trustees are entirely in the hands of their technical officers. These officers comprise not only those at the system head office, but also those at regional head offices and in the actual areas affected by proposed co-operative measures. Between those officers there must necessarily be discussion and intercommunication, and it must also be kept in mind that projects which, for one good reason or another are ultimately found unworthy of further prosecution, take just as much time, and in some cases more time, than others which reach a successful consummation. From the time the trustees entered upon office they have been persistent in directing their own attention and that of the officers under them to this very important subject. They have taken every step to avoid delays, and in so far as they could, have insisted upon constant application on the part of their technical officers and advisers to the study and development of co-operative plans. They have given full weight to the views of those professionally possessing technical knowledge and skill, and in no case—with the limited exception of the pace at which negotiations were being conducted—have they found themselves in conflict with the views of their experts from the president down.

While in view of the many technical difficulties which have to be overcome, and the many meetings which have to be held between the parties before projected plans of co-operation can be brought to completion, it is difficult to assign to any one of them an exact computation of the time which should be taken up in the process; and while, as I have said, there has been continued application on the part of everyone in Canadian National Railways to the prosecution of co-operative measures, it is my view that quicker progress could have been made had there been present in the officials of both railroads, a greater measure of the will to co-operate. There could, in my opinion, easily be a more enthusiastic disposition to overcome obstacles in the way of co-operative progress, and it may be useful to devote a little time to the consideration of some of the aspects of co-operation which influence the average railway official.

In the opinion of Mr. Eastman (Federal co-ordinator of transportation in the United States) the tendency of railroad management to cling to assumed individual advantages in preference to those which would be gained by co-ordination or correlation, is ingrained, and it may be impossible to overcome. Many railroad executives have an instinctive distrust of co-ordination projects, especially those which are large in scope. Such projects run counter to their training, and often to their self-interest. The executive officers have grown up in the business, and this idea of conflicting interests is ingrained and predominant. Their habit of mind is intensely individualistic and suspicious of collective action. When such action is proposed, notwithstanding that it may be for the good of the industry as a whole, the normal executive will at once seek to determine how it may affect his railway in comparison with others. It is easy for him to fear that it may have an adverse effect from that point of view, and if he does he is against the proposition. These are the views of Mr. Eastman as to the condition which he found on the railroads of the United States. My observation leads me to the belief that we have a similar situation in Canada.

Another factor, to which attention must be given is that almost every scheme for effecting further economies has a direct bearing on some community, and the interests of each community has to be seriously considered. It is a remarkable feature of the public's attitude towards co-operative and other economy measures that, while there is universal approval of these in the abstract any concrete step which affects employment in, or the supposed importance of a community, is immediately faced with all the opposition which that community can command.

[Hon. C. P. Fullerton.]

There is still another and very real impediment in the way of further extensive economies, and of co-operation. Throughout the whole service there is a widespread conviction that the difficulties of the Canadian National Railways (and no doubt this also applies to other railroad systems) are of a purely temporary nature brought about by times of depression, which in due course will pass. Buoyed up in this belief, there is a reluctance to take steps permanently diminishing the assets and importance of the railway, and one can observe in the initiation and development of co-operative plans, a disposition to take steps which can later be retraced, rather than radical methods which would leave a permanent imprint on the system.

But perhaps the greatest difficulty in the way of expediting further extensive economies concerns labour. To reduce expenses on any large scale men must be displaced, and if serious hardship and unrest are to be avoided, some form of dismissal pay or compensation should be considered. It is my personal view that a great deal more progress might be made in co-operative measures for economy, as well as in other economy measures, if some plan for employee dismissal compensation were worked out, and adopted.

Mr. HEAPS: The same as in the States?

Hon. Mr. FULLERTON: Yes. I believe it to be a fact that the officials of the railroad, contemplating changes designed to secure economy but which involve putting men out of work with little hope of re-employment, are influenced by humanitarian feelings, and naturally the men resist all such measures to the limit. It does not seem unreasonable to urge that part of the advantage to the employers should be shared with labour, rather than that the whole burden should be borne by labour. The Canadian National-Canadian Pacific Act requires that both the burden and the advantage should be shared by the two companies. It seems to have been overlooked that the joint advantage can be secured only by transferring the burden to labour. A more equitable arrangement with labour appear to be required and should be provided. If this were done, one great preliminary step towards the accomplishment of any radical changes which might displace labour would be made. The natural reluctance of the officials to give up that to which they are accustomed, and perhaps that which they have helped to create or develop, is understandable, but it must take second place to the national economy. Ways and means must be found of obtaining a better co-operative atmosphere. The campaign for amalgamation did not help the situation in this respect. Uninformed comparisons of relative operating efficiency between the two organizations do not help. The disposition towards each other and towards co-operation itself, of the two organizations, does not help. Nevertheless, I am convinced that the greatest obstacle to co-operative measures is consideration for the men who would be displaced by their adoption. An agreement has been reached between the railway executives and organized labour in the United States providing for the payment of a measure of compensation to employees thrown out of work by consolidation of railway facilities; and I understand that the British railways also made some provision for employees displaced as a result of the amalgamation of British railways into four systems.

I have reached the conclusion that the government, the railways, and the representatives of railway labour should discuss this matter together with a view to the adoption of some arrangement for the two Canadian railroads as will afford reasonable protection against hardship on the part of these employees who, after long years of service, may be displaced by the adoption of co-operative measures.

The foregoing seems to me important in view of the necessity which may soon present itself—if indeed it has not already done so—of effecting economies and restrictions of railway services on a scale throughout Canada much greater than that contemplated by a plan of co-operation. I am aware that differences

of opinion exist as to what co-operative measures between the railways were intended to produce, some viewing it as, so to speak, a method of shortening sail during a storm, leaving the ship intact when the storm has passed, while others, to continue the metaphor, look upon it as a method of salvaging whatever can be saved from the wreck. Perhaps somewhere between these extremes is the proper outlook. There is now general agreement that Canada has too much railway mileage for its population, and that the problem in its simplest terms is whether it should be reduced to meet present requirements only, leaving future developments to be dealt with as and when the occasion arises, or whether having cut off all railway services of an obviously redundant nature, we should still keep in reserve trackage and services to meet a prospective and expected upturn in national prosperity. Personally I think that, having got rid of clearly unjustifiable expenses, the public view is that every effort should be made to keep intact, as far as possible, the important asset which Canadian National Railways represents, and that this sentiment applies to the other great Canadian system. I believe that there is a sincere desire to have the two systems proceed abreast in any step they may take, and a corresponding aversion to one realizing an advantage at the expense of the other. I think that constant effort should be directed to find new avenues for further economizing, and that, if provision for labour and the other matters referred to were made, a great impetus would be given to the accomplishment of such economies.

It must not be overlooked, however, that there are clear signs of general business betterment, and it may well be that in the operation of the dual factors of improved business conditions and the wise extension of economies by whatever means, lies the salvation of our Canadian railways. Substantial progress towards a better railway situation has most certainly been made in recent years, and on a volume of business which only very recently would have shown heavy operating losses, there are now important operating profits available towards payment of the interest burden which presses so hardly on the system, and which is largely a result of transactions for which Canadian National Railways, as presently constituted, has no equitable responsibility.

Before concluding this statement I desire to touch on a matter which, at first glance, may appear to be of a purely personal nature, but is of general importance.

Since it has been publicly stated that the trustees were asked for their resignations, it may be admitted that this was so, and that for myself I declined to acquiesce. At that time no complaint was made regarding my efficiency, but exception was taken to the fact that I was not a professional railway man and that this had allegedly undermined the morale of the men. The Act of 1933 provides that:—

No trustee shall be removed from office nor suffer any reduction in salary during the term for which he is appointed, unless for assigned cause and on address of the Senate and House of Commons of Canada.

It may be that this statutory provision is of a unique nature, but while it remains the law of Canada it should, in my view, be fully observed. It is not for me to express any view as to whether the legislation is, or is not, justifiable. It is sufficient to say that the reasons for it are well known and were openly discussed by the Duff Commission. One purpose was to enable those who were appointed as trustees to carry out their duties impartially and without subjection to the influence of fear or favour. Another purpose was to secure a measure of continuity of management by trustees in the method provided by the Act, which obviously would be destroyed if other methods were adopted. Further, it was the very definite nature of the wording of this Section of the Act which induced and justified me in the abandonment of the position I had in 1933 and accepting office as Chairman.

[Hon. C. P. Fullerton.]

In discharge of my duties I have consistently maintained an independent and unbiased attitude towards the political parties and their members, and as long as I am chairman of the trustees I purpose to continue to do so. That, I consider, is merely the observance of a fundamental condition of my appointment and of the spirit of the 1933 Act. When I was asked for my resignation in October last my first impulse was to give it, as, no more than any other man, do I have a desire for carrying on my work in other than an atmosphere of friendliness, appreciation and confidence. On reflection, however, it was borne in on me that to yield on a matter of this nature, no matter how great the temptation to do so might be, would be to betray a trust which, through a Statute of Canada, had been reposed in me, and that any such action on my part would simply be acquiescing in the creation of a situation which parliament itself had taken special steps to prevent arising.

I have, therefore, found myself in a most unpleasant situation, but a situation in which I think there was only one course which I could with honour and fidelity to duty pursue, and I trust that those whose duty it is to review my actions will appreciate the facts to which I have called attention.
May 30th, 1936.

The CHAIRMAN: Well, gentlemen, may I say that we are all obliged to Judge Fullerton for the statement he has presented to us. It was the consensus of opinion at our last meeting that the minister should have the right to make a reply to this statement should he desire so to do.

Mr. HEAPS: Mr. Chairman, how about the other trustees?

Hon. Mr. STEWART: I want to ask a question or two.

Hon. Mr. HOWE: Perhaps we had better both make our statements. That was the understanding.

Mr. HEAPS: Mr. Chairman, how about the other trustees? Before the minister proceeds I think you should find out whether they also wish to make statements. I do not know whether they have anything they desire to say or not.

Mr. LABELLE: Mr. Chairman, I must admit that I did not help the chairman in the preparation of the statement he has given to you. I was down here on Tuesday last, but on the suggestion of the Minister of Railways, of my chairman, and at the very personal request of Mr. Hungerford I changed trains immediately in Montreal on Tuesday night to spend the week in Quebec where the bill with respect to the construction of the Temiskaming-Abitibi branch was before a committee of the legislature. Following the conclusion of proceedings at Quebec I returned to Montreal arriving on Saturday morning, and I will admit that I had no time whatever in which to prepare a statement of my own. I have heard the statement presented by my chairman, and I will say that I agree with that statement, except perhaps the personal touch at the end expressing his views with respect to resignation. I do not think it is proper for me to add anything to what has been said.

The CHAIRMAN: As far as Mr. Morrow is concerned, before leaving at the end of the last meeting he informed me that he did not intend to make any statement, that his views were contained in the annual report of the Canadian National Railways.

Mr. GRAY: Is it not possible that the members of the committee should have copies of the statement, it would appear that everybody else has a copy of that statement.

The CHAIRMAN: There is a copy for distribution, now that it has been read.

Mr. GRAY: We should have had it while Mr. Fullerton was speaking.

The CHAIRMAN: The consensus of opinion at the last meeting of the committee was that only two copies were to be available while it was being presented to the committee.

Mr. GRAY: It certainly should have been available in so far as members of the committee are concerned. Personally I object to the whole proceedings.

The CHAIRMAN: So do I. I am fully convinced that the whole proceeding is out of order. I expressed my opinion thus at the last meeting, but I was overruled by the committee. I want to make that perfectly clear.

Hon. Mr. STEWART: I wish at once to differ with the position that you have taken to-day. It seems to me that the reading of this statement, this moderate, conciliatory statement, of the chairman of the board of trustees fully justifies the position taken and the decision which this committee made at its last meeting.

The CHAIRMAN: No doubt.

Hon. Mr. STEWART: That is all I have to say about that. Now, I would like to have had the chairman develop a little more—

Hon. Mr. HOWE: Just a moment, please.

Hon. Mr. STEWART: Just let me state my position, then I will sit down.

Hon. Mr. HOWE: Thank you.

Hon. Mr. STEWART: I would like to have had the chairman of the board of trustees develop a little more fully the division of duties that took place between himself and the president, and the matter of the failure to give to the affairs of the Canadian National Railways more publicity. These have been referred to by the minister and are in Hansard. That is the only point, that I think the statement might be amplified in some respects; because, it is said that the division of duties as between the chairman of the board of trustees and the president were made in such a way as to hamper and embarrass, and to militate against the successful operation of the road. I would like to know a little more about how this was done; whether it was done with the co-operation of the president; whether there was an understanding—

The CHAIRMAN: But, Mr. Stewart—

Hon. Mr. STEWART: —whether there was any real disturbance.

Mr. BEAUBIEN: I think this is out of order.

The CHAIRMAN: I want to call "order." But, Mr. Stewart, there was a clear statement made to this committee at the last meeting—

Mr. BEAUBIEN: I am speaking to a point of order, and I think I should be heard first.

Hon. Mr. STEWART: All I want to do is complete my statement.

Some hon. MEMBERS: Order. Order. Let us hear the point of order.

Mr. BEAUBIEN: Mr. Chairman, it was agreed at the last meeting, even with my objection, that Mr. Fullerton, chairman of the board of trustees would make a statement to the committee to-day.

The CHAIRMAN: Quite right.

Mr. BEAUBIEN: And that the Minister of Railways and Transportation would have the right to make a statement in reply. Now, the chairman of the board of trustees has made his statement and the minister is prepared to make his statement; and that is as far as this committee has instructed its chairman to permit proceedings to go.

The CHAIRMAN: That is right.

Mr. BEAUBIEN: I do not think he should go any further. The whole question is out of order, but the committee having decided to receive these two statements I think they should be heard, but I do not think we should go further than that.

The CHAIRMAN: I think the point of order is extremely well taken.

Mr. MAYBANK: Speaking to the point of order: I think it was distinctly stated a tour last meeting that when that much had been done we would consider whether there would be any questions or not. As I recall it, those in favour of the statements being made at the same time said that we were not going to permit members of the committee to go into any lengthy inquiry based on these two statements. I think the point of order is well taken. I recall that distinctly.

The CHAIRMAN: I rule that the minister has the floor.

Hon. Mr. HOWE: Mr. Chairman, I have very little to say. As Mr. Stewart has said, the chairman (Hon. Mr. Fullerton) has made a most moderate and I think reasonably fair statement of the situation. I would like to say at the outset that as far as I am concerned I have had, and have to-day, nothing but the highest respect for Judge Fullerton. There is something involved here that to me is more important than any person, it is the future management of Canadian National Railways. The government when it took office naturally considered this great problem first, and it decided in its judgment that the trustee system of management was not conducive to the best interests of the railway. They reviewed its weaknesses, and they formed the opinion that it had very decided weaknesses.

In fairness I thought that I should get off under no false colours with Mr. Fullerton and so the first time we had a talk, which I think was about a week or two after we took office, I told him the view of the government with respect to the railway. I told him, as fairly as I could set it out, of the decision which had been reached, and I told him then that I had the highest respect for him as a man, that I had known him in the west, I had known him as a judge and as chairman of the board of railway commissioners, and that I had formed a high opinion of his work in those fields; but I also pointed out that in my opinion the head of the Canadian National Railways must be a man who knows every phase of railway operation. We all have to rely upon our own experience, and my experience is that the successful head of a business has to know about as much of every department of the business as the man operating that department, and, in addition to that, he should have a little more general knowledge which qualifies him to take precedence over the other man.

I explained to Judge Fullerton that no matter how high his other qualifications were, he did not have that knowledge, through no fault of his own, because it just happened that he was trained in another field; that I saw no way in which he could acquire that knowledge and, therefore, command from the officers of the railway and from the employees of the railway—because the feeling goes from the top down to the switchman and the man at the farthest outpost—the confidence of the railwaymen to the degree necessary for successful leadership. I told him, rightly or wrongly, that in my opinion I thought it would be an exercise of good judgment on his part to resign at a time when there was a perfectly logical reason to resign. There had been a change of government, and the new government took the view that a different organization of management of the railway was required. Judge Fullerton told me at that time that this contingency had more or less been considered when his appointment was made, and that Mr. Bennett in appointing him had told him that if, for any reason, that government asked him to leave the railway, Mr. Bennett would put him back on the bench. I said then that I would expect to implement any promise Mr. Bennett had made so far as I might be able, and if he would give me a little time I would review the possibilities of doing that. I took the matter up and I found there were no vacancies on the bench at the time, and in any case, it would be impractical for me to make any commitment in that direction.

In the meantime some correspondence between us—three letters from Judge Fullerton, the last of which I replied to—had taken place. After I explored the position I arranged another appointment with Judge Fullerton, this time in

Montreal, and explained the position. I told him I was unable to promise a judgeship, but if there were something else which he would consider a reasonable equivalent, I thought that could be arranged. I said I could not promise the impossible, but if it was a matter within the possible I would try to arrange it. I quite appreciated the fact that when he took this position he had left other employment, and I had no desire to be unfair in any way in that regard. A retirement allowance for the balance of his term was discussed, and we even arrived at the amount, which I think was first suggested by Judge Fullerton and agreed to by myself.

However, Judge Fullerton, by later correspondence, advised that he did not care to go on with the proposal he had been discussing, and so the matter was dropped. I think, with that background, Judge Fullerton will not think I have been unfair in my treatment of him. I cannot think of anything he has asked me to do that I have not done, and I cannot think of anything I have asked him to do that he has not done.

AN HONOURABLE MEMBER: Except to resign.

Hon. Mr. HOWE: I excepted that background. I might say that anything I have to say is no reflection whatever upon Judge Fullerton, for whom, as I said before, I have a high regard. However, the position is this, as I stated in the house when introducing the bill: that in 1934, the first year of the trusteeship, the cash requirements of the railway were \$56,000,000; in 1935, the second year of the trusteeship, the cash requirements were \$55,000,000; in 1936 the estimate when it first came to me, again, was \$55,000,000. I exerted a little pressure of my own, and asked the trustees to take a more optimistic view of the year; and in that conference, after discussing the matter thoroughly, both the operating deficit and the capital requirements were reduced, and we have asked parliament to provide for total cash requirements of slightly less than \$50,000,000.

Mr. HEAPS: Did that include the capital?

Hon. Mr. HOWE: It includes the capital as well.

I am willing to grant all that Judge Fullerton says about economies. I think the road has been carefully operated; but it comes down to this: are we willing to take the view that this railway must cost us in the vicinity of \$50,000,000 per annum? I think not; and I believe it is the duty of this government, and of the government in the first year of its office, to attempt to meet that situation and take that load off the back of the tax payers. We may fail as other governments have failed, but I have a great deal of confidence in being able to make material inroads into the deficit if we are allowed to set the railway up as we believe it should be set up.

The figures quoted by Judge Fullerton are a comparison with the year 1933. Well, the year 1933, as we know, was the all-time traffic low for railroads. Whether figures for 1934 and 1935 can be correctly compared with 1933, or whether they should be compared with years of equal prosperity, or at least of equal traffic levels, I do not know. However, I have no great criticism of the figures; they are entirely correct as they are stated in Judge Fullerton's report, as far as I know.

But there is something bigger than all this in my opinion—bigger than the matters touched in the report—and that is to get rid of that load of \$50,000,000 or \$55,000,000 which bears on the tax payers of Canada.

Now, we tried co-operation, and there again Judge Fullerton, I think, has quite correctly said that had some provision been made for the men displaced probably a good deal more progress would have been made. The obvious answer to that is, why did he not attend to that? After all, the trustees must be the mainspring of all this sort of thing, and any action of that kind had to be initiated by themselves. I think we can say generally that no complete

solution can be found in co-operation between the railways. There are certain savings to be made there. Probably further savings can be obtained by further studies. But that is not the complete solution. We must get the railways producing new traffic and getting their fair share of any traffic going. Times are getting better; we must drive ahead—driving to get back the traffic we lost to the trucks, driving to get back our fair share of traffic from water carriers, and watching the situation as regards aeroplanes. I believe we must have, as directors of our road men who are intimately connected with the industrial life of the country, men who are able to help the road in obtaining traffic, just as the directors of the Canadian Pacific Railway are traffic producers for that railway; and I believe we have got to have at the head of the railway a man who, as I say, knows every man's job as well as the man does, and in addition to that, has a little more knowledge of the whole situation than anyone else in the system. That is the view of the government. My own conduct of the affair up to now is, perhaps, under examination, but I really have no apologies for it. Had I been willing to put myself in the position of sailing under false colours, I could have carried on with Judge Fullerton up to the time this bill was brought down, worked close co-operation with him all that time; and then have had to say to him, "I am sorry, Judge, but we are going to drop you." I thought it was much fairer to tell him the position as soon as I knew it, which I did. Consistent with that, I have tried to work with him as well as two men in our respective positions can be expected to work together. This is one of the wretched things that a man has to do when he takes the responsibility that I have. The personal end of it has caused me a good deal of distress. I think that if that could have been removed, the matter could have been discussed now from a national viewpoint with less feeling than is likely to develop under the circumstances. I am sorry it did not work out that way; but we must carry on, and let the chips fall where they may.

The CHAIRMAN: Gentlemen, the next order of business is the consideration of the report.

Hon. Mr. STEWART: Mr. Chairman—

The CHAIRMAN: I beg your pardon—

Hon. Mr. STEWART: Mr. Chairman, I am going to ask one question. May I ask the chairman of the Board of Trustees any question in amplification of the statement he has made?

The CHAIRMAN: I do not think so.

Mr. HEAPS: If he asks one, he may ask a hundred.

The CHAIRMAN: I am in the hands of the committee. It is for the committee to decide. The whole of this discussion—the report of the chairman and the statement made by the minister—is absolutely out of order. There is no getting away from that. We have not the right, in accordance with our order of reference, to discuss a matter that is sub judice—is now before the house—and I think we have gone to an extreme in doing what we have done. However, I am in the hands of the committee, and if the committee desires that this report should be discussed, it is for them so to decide.

Mr. KINLEY: Are we going to try this case?

Mr. WALSH: In the earlier proceedings of this committee the chair and the committee promised that we would have an opportunity to ask further questions in connection with the statements and reports submitted to parliament through the minister by the trustees.

The CHAIRMAN: Mr. Walsh, I am sorry to have to interrupt you, but that is not what was decided. I asked Mr. Stewart—instead of asking the Board of Trustees to make a general statement—if he had any specific questions to ask, and he agreed that he would not ask any specific questions in the com-

mittee, but he would ask the chairman of the board to make a report to this committee, which has been done. I said in the beginning that we had no right to discuss this question in this committee.

Mr. WALSH: I do not want to discuss the question of the report that Mr. Fullerton has submitted this morning; I want to ask Mr. Fullerton while he is here in the presence of this committee one or two questions on this report—

Mr. HANSON: We are all entitled to ask questions.

Mr. WALSH: As long as we confine ourselves to the report that the committee has discussed—

Mr. MAYBANK: I rise to a point of order.

Mr. WALSH: There is no point of order about it.

Mr. MAYBANK: When I say there is a point of order I have a right to say it; and the point of order is this: I agree with what Mr. Walsh has said with reference to there being an open period for further questions upon the reports, and I agree that we adopted these reports tentatively on a certain day a week or two ago. We again took that matter up at our last meeting, as the records will show, and formally closed that opportunity, and the balance of the meeting referred to these two reports we have heard to-day. Our position in that respect was as has been stated by Mr. Beaubien this morning, and that opportunity which Mr. Walsh is now asking for was given at the last meeting, and that opportunity was then closed; and I submit that any further questions along that line in the way of re-opening these reports is out of order.

Mr. GRAY: Unless we definitely closed the matter—I was not here and did not have an opportunity to read the evidence—but surely unless we definitely closed the question, if the report is in order, members of this committee can ask questions of the minister or Mr. Fullerton on the report. I repeat that until one has had an opportunity to review the report, it is pretty hard to ask questions; but unless you have absolutely closed the door I cannot see how you can do so now without knowing what is going to be said. I would think the door is wide open now.

The CHAIRMAN: As far as the report of Mr. Fullerton and the statement by the minister are concerned they are closed; as far as the other report is concerned, we left the door open, and you have the right to ask any questions you like on that.

Mr. WALSH: I quite appreciate the fact that the statement which was made this morning was made on request, and the minister has had an opportunity to reply; but there is some additional information I would like to get while Judge Fullerton is before the committee so that I may have a better understanding of this annual report, and so that the other members of the committee may also have that opportunity. Now, there is one question I wanted to ask the judge: were you altogether responsible for the preparation of the reports of the Canadian National Railways that have been under consideration by this committee?

Hon. Mr. FULLERTON: Not altogether.

Mr. WALSH: Were those reports prepared in consultation with the other trustees?

Hon. Mr. FULLERTON: Absolutely, and the officials.

Mr. WALSH: Were the officials present, and did they have an opportunity to discuss these with the trustees?

Hon. Mr. FULLERTON: Every opportunity. The report was approved by the president and by the vice president before it finally went.

Mr. WALSH: The president, who is the operating official, had every opportunity to embody his opinions in these reports?

Hon. Mr. FULLERTON: He approved the report.

Hon. Mr. HOWE: Did he have every opportunity to embody his opinions?

Hon. Mr. FULLERTON: Yes, he has, and he has had from the beginning.

Hon. Mr. HOWE: He does not sign the report as president.

Hon. Mr. FULLERTON: Mr. Hungerford goes over the whole report and approves of it before it is signed and printed.

Mr. WALSH: You would say, then, that Mr. Hungerford did go over these reports, particularly this one, and approved of what is contained in this report?

Hon. Mr. FULLERTON: Absolutely so.

Mr. WALSH: And he had an opportunity to make suggestions if he disagreed with anything that you prepared to put in there?

Hon. Mr. FULLERTON: Every opportunity.

Mr. WALSH: And the other trustees had a similar opportunity?

Hon. Mr. FULLERTON: Absolutely.

Mr. WALSH: In other words, this does not embody your opinion and your opinion only?

Hon. Mr. FULLERTON: Not at all.

The CHAIRMAN: It is signed by the three trustees.

Hon. Mr. FULLERTON: It is signed by the three trustees. It is approved by Mr. Hungerford and gone over by Mr. Hungerford.

Mr. WALSH: Could you tell this committee if the president was in attendance at your regular meetings of the Board of Trustees held from time to time throughout the year?

Hon. Mr. FULLERTON: I do not remember a single occasion that he was absent.

Mr. WALSH: He was regularly present?

Hon. Mr. FULLERTON: I remember no occasion when he was absent from our meetings.

Mr. WALSH: In other words, he had a full opportunity to take part in all of the deliberations in connection with the management of the Canadian National Railways?

Hon. Mr. FULLERTON: Absolutely.

Mr. WALSH: Which led up to the final preparation of this report?

Hon. Mr. FULLERTON: Absolutely so.

Mr. HEAPS: Mr. Chairman, I should like to ask a question directed more particularly to the minister. The minister made reference, and there appears in the annual report some reference, in regard to the displacement of labour as a result of co-operative efforts. It was suggested, and I think there is some reference put in the 26th report to what has been called in the United States dismissal pay. The minister suggested that the trustees of the railway confer with all those interested, in an effort to see if something can be devised in order that the hardships involved upon those who have given long years of service to the railway might in some way be alleviated, if dismissal is decided upon. Is that an indication of the policy of the minister, that he desires something of that nature to be brought about, if co-operation is effected in the service of the two railways?

Hon. Mr. HOWE: I was not stating a policy. I was simply commenting on a reference in the chairman's report. There is no doubt, as my friend knows, that the arrangement in the United States was entirely between the management and the men themselves, in the same way as wage arrangements and every other arrangement of the kind is made. It is not a matter, as I see it, for government action.

Mr. HEAPS: I think the minister himself perhaps realizes that in the United States it was the fact that there was certain legislation pending in the Congress which brought about the arrangement between the railways and the employees; and it was in order to offset the legislation in Congress in the United States that the employees and employers in the railways in United States got together.

Hon. Mr. HOWE: I do not know that that is exactly a fair statement. The legislation was not pending. A committee had been appointed to examine the situation, and they were holding the hearings when this agreement was made direct between the railways and its employees. That is a correct statement, I think.

Mr. WALSH: Can we assume from this report that the operating cost of the Canadian National Railway was lower this year than it was for, say, the year 1933?

Hon. Mr. FULLERTON: Yes.

Mr. WALSH: We may draw that conclusion from this report, that the operating costs were actually lower?

Hon. Mr. FULLERTON: Yes.

Hon. Mr. HOWE: I do not think that is a fair statement.

Mr. WALSH: Is that a fair statement?

Mr. KINLEY: No. It cost six or seven million dollars more.

Hon. Mr. FULLERTON: The cost is greater on account of the increased traffic. The net is lower.

Mr. HEAPS: Could we say the operating ratio was lower?

Hon. Mr. FULLERTON: The operating ratio. I have given the operating ratio there as between 1935 and 1933. It was lower.

Mr. HEAPS: It is lower?

Hon. Mr. FULLERTON: Yes.

Mr. WALSH: I do not know whether this question would be in order or not. You can correct me if it is not.

The CHAIRMAN: Do not ask it, then.

Mr. WALSH: There is a suggestion in this report in connection with political interference. Did you experience any particular aggression along that line at any time, even during the past few months?

Mr. HEAPS: The past few years.

Mr. WALSH: The past few years, yes. I do not want to restrict it, as casting a reflection upon any particular party or government.

The CHAIRMAN: Do you think that is a fair question. Why embarrass the president? He gave a very fair statement of the whole situation, and he has referred to the political situation. I think you should stop there.

Mr. WALSH: All right. There is one other question. I do not know whether it could be construed as coming into the report or not. The report suggests, or I read into the report, that the possibilities of co-operation have been fully explored and exhausted. That is not a correct statement, is it?

Hon. Mr. FULLERTON: That is not so. What report is that?

Mr. WALSH: In this report I hold in my hand.

Hon. Mr. FULLERTON: They are not exhausted.

Mr. WALSH: The possibilities are not exhausted. There is still a further avenue for exploration?

Hon. Mr. FULLERTON: Absolutely. We are working on it all the time.

Mr. WALSH: You think something further can and will be accomplished by the trustees along that line?

Hon. Mr. FULLERTON: I do not think there is any doubt about that.

Mr. WALSH: This has nothing to do with the report; at least, I cannot see that it has. But I will ask the question and you can call it out of order if you wish.

Hon. Mr. STEWART: Do not invite him to do that.

Mr. WALSH: You have had certain correspondence with the Minister of Railways since October, 1935.

The CHAIRMAN: Order.

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: That is not for us. If the bill is referred to us, you will have an opportunity to discuss that.

Mr. WALSH: Could I ask Mr. Fullerton if he would release from the term "confidential and private" any correspondence that he has had with the Minister of Railways since October, 1935.

Mr. HEAPS: That is out of order.

The CHAIRMAN: Order. I do not think you should ask that question. If the letters were marked "personal," I do not think it is competent for Judge Fullerton to make them otherwise.

Mr. HEAPS: They are personal on two sides.

The CHAIRMAN: Yes, on both sides.

Mr. WALSH: I was just asking Judge Fullerton if he cared to release them.

Hon. Mr. FULLERTON: I may say that I have no objection.

Mr. WALSH: Thank you.

The CHAIRMAN: Gentlemen, shall we thank Judge Fullerton for his evidence, and then sit in camera?

Hon. Mr. STEWART: Mr. Chairman, I should like to ask the chairman of the board of trustees if he would be good enough to amplify his statement in connection with the division of duties as between himself and the president.

The CHAIRMAN: Is that fair, Mr. Stewart.

Hon. Mr. STEWART: I really think so. Otherwise I would not have asked the question.

The CHAIRMAN: That is all right. You may have a tremendously good object in asking the question. But Judge Fullerton has complied with the wishes of this committee. He has made a written statement to this committee. A copy of this statement was sent to me as chairman of this committee, and another to the minister. He has read his statement here in the committee. Perhaps I made a mistake in not distributing that statement right off at the opening of the meeting of the committee. But I do not think it is fair to ask Judge Fullerton to amplify in any way, shape or form the statement he has already made. The matter is not before the committee. You may ask that question in the house when the bill is being discussed, Mr. Stewart. The minister will give you the answer then, or obtain an answer from Judge Fullerton, if he desires to do so. But the matter is not before us at the present time.

Hon. Mr. STEWART: Mr. Chairman, the chairman of the board of trustees will not be in the house and therefore I cannot ask him. The minister has no knowledge of it, so I cannot get the answer from him.

The CHAIRMAN: You can ask the question of the minister. He can obtain the information from Mr. Fullerton.

Hon. Mr. STEWART: No. He cannot get it that way at all. That is the only point there was, I think, in having the statement made here.

The CHAIRMAN: I think the question is out of order.

Mr. HEAPS: Absolutely. Everything is out of order.

The CHAIRMAN: Judge Fullerton, we want to thank you for your kindness in coming to this committee this morning.

Mr. WALSH: Before Judge Fullerton goes, as a member of one of the parties here I want to express to him my personal appreciation of his effort in giving that very splendid report which he presented here this morning. I am sorry that I was instrumental, or partially instrumental, in inflicting such an amount of labour on him, both this morning and in the preparation of the report. But I think the labour is fully justified by the information we have received.

The CHAIRMAN: Carried.

Hon. Mr. FULLERTON: Are you through with us?

The CHAIRMAN: Yes, we are through.

Gentlemen, shall we sit in camera?

Some Hon. MEMBERS: Yes.

The committee adjourned at 12.25 p.m. to meet in camera immediately.

APPENDIX

LETTER FROM SIR E. W. BEATTY AND MEMORANDUM ATTACHED THERE TO, FOLLOWED BY LETTER FROM Mr. S. W. FAIRWEATHER

CANADIAN PACIFIC RAILWAY COMPANY

OFFICE OF THE CHAIRMAN AND PRESIDENT

MONTREAL, 16th May, 1936.

Sir EUGÈNE Fiset,
Chairman,
Standing Committee on Railways and Shipping,
House of Commons,
Ottawa, Ont.

MY DEAR SIR,—On page 169 of the Minutes of Proceedings and Evidence before the Standing Committee on Railways and Shipping, in answer to a question put by Mr. Maybank, a statement was filed by Mr. Fairweather which purports to adjust the operating ratio of Canadian National Railway Lines in Canada to a basis comparable with the Canadian Pacific Railway.

Our statisticians consider Mr. Fairweather has made improper calculations and they have prepared a memorandum, copy of which is attached, outlining the errors he has made. I shall be glad, should it be consistent with the rules of the Committee, if you will arrange for this memorandum to be spread on the record of the Committee, so that damage to this Company will not result from use of the ex-parte statement filed on behalf of the Canadian National Railways.

I am sending a copy of this letter and the memorandum to Mr. Howe for his information.

Yours very truly,

E. W. BEATTY,
Chairman and President.

MEMORANDUM

Mr. Fairweather, Director of the Bureau of Economics of the Canadian National Railways, in a statement filed as an Appendix to Minutes of Proceedings and Evidence before the Standing Committee on Railways and Shipping of May 6th, 1936, makes six adjustments in the Canadian National operating ratio in order, as he claims, to make it comparable with that of the Canadian Pacific. These adjustments are with respect to the following items:—

- (1) Express, Telegraphs, Pensions, Colonization and Natural Resources Expenses.
- (2) Average Haul.
- (3) Car Loading.
- (4) Freight Density.
- (5) Passenger Density.
- (6) Managerial Problems.

Exception is taken to the adjustments made for the following reasons:—

Item (1) Mr. Fairweather has followed an incomplete and unusual method of dealing with the difference in accounting procedure followed by the two railways in respect to the accounts referred to. An authoritative basis of compar-

ison was set up by the Royal Commission to Inquire into Railways and Transportation in Canada in 1931-32. Both railways submitted to that body accounts compiled in a uniform manner. These were subsequently incorporated by the Commission in its Report. The operating ratios computed from these accounts were tabulated by the Commission. In explanation, it made the following comment:—

138. In comparing the performance of two railway systems on the basis of operating ratios, it is necessary, before drawing conclusions, to make allowance for factors that may adversely affect results in the case of one or the other, and to ascertain as far as possible that the figures that enter into the calculations are on a comparable basis. A detailed analysis and comparison of the operating accounts of the Canadian National and Canadian Pacific was made by an independent railway accountant employed by the commission to ensure a fair basis of comparison between the accounts.

The operating ratios of the two Companies on the comparable basis referred to, brought up to date from information furnished to the Dominion Bureau of Statistics and on the basis shown by Mr. Fairweather, are given in the table which follows:—

	Operating Ratios on Comparable Basis set up by Royal Commission			Operating Ratios as shown by Mr. Fairweather	
	Canadian System	National Lines in Canada	Canadian Pacific	Canadian National Lines in Canada (adjusted) x	Canadian Pacific
1923..	91.8	94.3	81.0	97.2	80.7
1924..	92.5	93.9	80.5	93.3	79.6
1925..	86.7	88.4	77.3	87.7	77.3
1926..	82.5	84.2	75.8	83.3	76.0
1927..	84.9	86.8	78.5	88.1	78.9
1928..	82.0	83.6	75.4	82.3	75.8
1929..	85.6	87.5	77.3	86.0	77.7
1930..	91.2	92.1	78.4	89.8	77.4
1931..	99.4	100.0	80.3	98.6	80.0
1932..	96.3	96.0	80.8	93.5	80.7
1933..	96.2	96.7	78.5	96.6	78.3
1934..	92.1	92.5	76.3	92.4	77.3
1935..	91.8	93.4	79.1	93.3	80.0

x After deduction of adjustment claimed by Mr. Fairweather for express, telegraphs, pensions, colonization and natural resources expenses.

The differences between the Canadian National operating ratios for lines in Canada and Canadian Pacific operating ratios on the two bases are as follows:—

	Royal Commission	Mr. Fairweather	Excess of Difference	
			Royal Commission	Mr. Fairweather
1923..	13.3	16.5		3.2
1924..	13.4	13.7		.3
1925..	11.1	10.4	.7	
1926..	8.4	7.3	1.1	
1927..	8.3	9.2		.9
1928..	8.2	6.5	1.7	
1929..	10.2	8.3	1.9	
1930..	13.7	12.4	1.3	
1931..	19.7	18.6	1.1	
1932..	15.2	12.8	2.4	
1933..	18.2	18.3		.1
1934..	16.2	15.1	1.1	
1935..	14.3	13.3	1.0	

This tabulation indicates the improper nature of the adjustment made by Mr. Fairweather to bring the figures to a comparable basis. In four years, the difference is more and in nine years less than the authoritative difference established on the basis set up by the Royal Commission.

Item (2).—The Canadian Pacific has a longer average freight haul owing to the grain movement in Western Canada forming a larger part of its total freight business. This longer haul is, however, inseparably linked with the low statutory freight rates applicable to such grain. These low rates are largely responsible for the fact that the Canadian National system average revenue per ton per mile for all commodities in 1935 was higher than that of the Canadian Pacific by more than 6 per cent and for its Canadian lines by 2 per cent. Had the Canadian Pacific received the same revenue per ton per mile, its operating ratio would have been less than it was. For purposes of fair comparison, it was improper, therefore, for Mr. Fairweather to reduce the Canadian National (lines in Canada) operating ratio by 0·9 points to adjust for the differences in average haul in Canada without increasing the ratio by 1·5 points to allow for higher average ton mile revenues in Canada.

Item (3).—Any calculation which assigns a difference of 1·9 points in the operating ratio for 1935, or an amount of \$2,747,000, for the factor of heavier car loading can have little or no supportable data for its foundation. To some extent car loading is a reflection of the nature of commodities handled. Bulk commodities which produce heavy car loads usually move at low rates. Car loading is also affected by operating practice—control of loading by shed staffs, etc. The average capacity of the freight cars in use by the two companies is approximately equal and neither company is loading its cars to maximum capacity. As a matter of fact, the Canadian National had a greater car loading ten or twelve years ago than it had in 1935, notwithstanding that in the interval many of its smaller units of equipment have been retired and replaced by the construction of larger capacity units. In view of what is stated, it will be realized how impossible it would be to compute an accurate adjustment for the difference in car loading or even to determine whether the Canadian National ratio would be increased or decreased.

Items (4 and 5).—Adjustments in the operating ratio have been made for difference in both freight and passenger densities. For the year 1935, the adjustment for freight density was 5·8 points and for passenger density 3·4 points, a total of 9·2 points. The excess of Canadian Pacific operating revenue per mile of line over that of Canadian National lines in Canada for the year was 19·8 per cent. Thus, in 1935, for each 2 per cent difference in traffic density an adjustment of approximately one point in the operating ratio has been made. Equal or greater adjustments have been made in other years. Such adjustments must have been computed on a very arbitrary basis and with loose assumptions. The author of the statement explained the method used on page 132 of the evidence. An appraisal of the extent of the adjustment which has been made can be had by making a similar adjustment for other railways. For example, the New York Central, in 1935, had 320 per cent more operating revenue per mile of line than the Canadian National. The ridiculous nature of the adjustment becomes apparent when one tries to deduct more than 100 per cent from the Canadian National operating ratio. It is obvious that the effect of traffic density has been grossly overstated.

The table below indicates the negligible effect of small differences in traffic density upon the comparisons:—

		Operating Revenue per Mile of Road	Operating Ratio	Excess C.N. over C.P. (points)
Example 1—				
Canadian Pacific.. ..	1930	\$11,952	78·36%	13·70
Canadian National.. ..	1930	9,783	92·06%	
Canadian Pacific.. ..	1931	9,254	80·31%	11·75
Example 2—				
Canadian Pacific.. ..	1931	9,254	80·31%	19·69
Canadian National.. ..	1931	7,821	100·00%	
Canadian Pacific.. ..	1932	7,736	80·79%	19·21

Example 1 shows a difference in ratios of 13·70 points with a Canadian Pacific excess operating revenue per mile of \$2,169, but the spread is still 11·75 points with a Canadian National excess operating revenue per mile of \$529. Example 2 shows a difference in ratios of 19·69 points with a Canadian Pacific excess operating revenue per mile of \$1,433, but the spread is still 19·21 points with a Canadian National excess operating revenue per mile of \$85. The comparison between 1931 and 1932 is slightly distorted by reason of reduction in wage rates effective in the latter year, but it is apparent from the tabulation that the adjustments for traffic density Mr. Fairweather has made are not correct and that conditions other than difference in traffic density have much to do with the difference in operating results.

Item (6).—In evidence, the Canadian National has been stated to comprise 139 companies. The Canadian Pacific conducts its own and affiliated operations through approximately the same number of companies. The interests and activities of the Canadian Pacific, particularly on account of its ocean services, are far flung. In total, the managerial problems of the two properties should not be materially different. Such managerial problems include the circumvention and elimination of the effects of any adverse conditions. The Canadian Pacific, unfortunately, is not free from its share of handicaps.

It is claimed that the Canadian National has not been able to standardize its equipment; that it has redundant and duplicate facilities to maintain and operate, as well as duplicate lines. On the other hand, on its main line it enjoys lower grades than those of the Canadian Pacific, particularly through British Columbia. Many of its lines were constructed at great expense to a standard beyond the immediate needs of traffic for the express purpose of providing low operating costs. Its program for construction of new rolling stock has been more extensive than that of the Canadian Pacific. The Canadian National operating ratio should have been increased to allow for these and other conditions concurrently with the adjustments which Mr. Fairweather has made for the items he referred to. It was manifestly improper to only calculate items claimed to be unfavourable to the Canadian National and omit from the calculation similar items which are known to be unfavourable to the Canadian Pacific. It will be realized how difficult it would be for either railway to fairly make a unilateral appraisal of the relative burden of such advantages and disadvantages. In the absence of full investigation by an impartial authority, it is a matter of opinion only as to whether the correct adjustment would favour the Canadian Pacific or the Canadian National.

General Remarks.—A perusal of the arguments which have been advanced as to the underlying physical conditions contributory to the differences in results between the publicly and privately owned Canadian railways shows that in general they are inconclusive. This was the opinion expressed by the Royal Commission, which carefully investigated this matter a few years ago. The Commission stated its conclusions in no uncertain manner in the following terms:—

141. An analysis and comparison of accounts of both companies, with due regard to the considerations put forward by the Canadian National as adversely affecting their operations, do not, in our opinion, justify the very considerable differences in the operating ratios of the two systems.

The situation has not changed since the Royal Commission reached this conclusion and definite exception is taken to the unfairness of spreading on the record adjustments for factors which the Canadian National claim adversely affect their operations in comparison with the Canadian Pacific without correspondingly taking into account adjustments for factors which favourably affect its comparative results.

S. J. W. LIDDY,

Assistant to Comptroller Canadian Pacific Railway.

CANADIAN NATIONAL RAILWAYS

BUREAU OF ECONOMICS

At Ottawa, June 2, 1936

Major-General Sir EUGÈNE Fiset, K.C.M.G.,

Chairman Select Standing Committee on Railways and Shipping,
Ottawa, Ontario.

DEAR SIR EUGÈNE,—I have carefully read Mr. Beatty's letter and the attachment thereto, I can find no reason for changing the evidence I gave before the Select Standing Committee.

Yours faithfully,

S. W. FAIRWEATHER.

